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FROM THE CONTENTS:—

Hongkong-China Relations

Mr. Kann's USA Report

Currency & Banking in Far East

Economic Trends in South Korea

Reports from Shanghai, Tientsin,

Canton, Chungking

The Situation in Shanghai

Hongkong Clearings, Currency

Taiwan Fertilizer Trade

Reports from Japan, Malaya,

the Philippines, Indonesia

JAPAN IN ASIA

by E. STUART KIRBY.

Views on Japan, and that country's possible part in the future economic development of Asia, are highly coloured by emotion and prejudice. Before discussing the Japanese position in detail, it is therefore advisable to take as wide a view as possible of the psychological setting.

It is now about a hundred years since Eastern Asia began, on a major scale, to be opened to the West. The dominant aspect of this period was the spread and development of capitalism. But its main impetus was lost in the 1930's, with the onset of Depression and political troubles. In the East, even earlier than in the West, that situation degenerated into War. The War clearly defined the end of an era. Today, the general conviction and sentiment are that one epoch has closed, and another is opening. Thus it is almost platitudinous to say that the first phase of Asian development has reached its end; it had its heyday in the late nineteenth century and the beginning of the twentieth, and was a stage of primary development largely dominated by mercantile interests. Its characteristic activities were the acquisition of raw materials and the pursuit of trade; it did not aim at major industrial development. The second phase, now believed imminent, is generally taken to be qualitatively different; it is supposed to represent the secondary and "higher" plane of industrialisation. Moreover, it is supposed to offer alternatives to Western or capitalistic procedures. Communism and Nationalism offer other choices, in the second cycle of development; whereas, in the first, Capitalism was the only possible course. It was suggested in the first article in this series (*Far Eastern Economic Review*, August 4th) that some of the visions of hyper-industrialisation and mechanisation are illusory, and that the apparent alternatives to international capitalism (i.e. Communism and autarchism), though proposing different procedures, have essentially the same end in view, viz. an extreme industrialism.

The Japanese, whatever their errors and crimes, are at least in some respects immune from the current ideological confusion. As a small and over-populated island, Japan cannot follow

the course of autarchy. On the question of industrialisation, the Japanese have a better sense of proportion than other peoples. Their country is already industrialised; but has a flourishing and skilful agriculture which still occupies one half of the population, and can sustain the whole in emergency. A more important point is however that they are the only nation in East Asia which has integrated its industrial (urban) development with its agrarian (rural) development. Elsewhere in Asia, farming is static in its methods and setting; townsmen and industrialists remain aloof from the countrymen, and there is a vast social and traditional gulf between them. Not so in Japan; industrial enterprise has not merely provided the means of improvement in farming technique, but — with the cottage industry system and a wide dispersal of local industries — actually based its industrial structure largely on the countryside. If a Japanese speaks of starting a new industrial venture, he may be thinking in terms of cottage workshops as much as of urban smokestacks. All that has been told abroad about the *Zaibatsu*, the few big groups that have controlled all Japanese industry, has sometimes given a false picture of a great centralisation of plants. It was of course the organisation that was on a large scale; the manufacturing units are generally very small and numerous, though their activities were skilfully linked up. The modern history of Japan's internal economic development deserves special study, as an instance of social integration, in countries whose real problem is rural disintegration. In the nineteenth century, Japan — though actually a latecomer in the process — entered wholeheartedly and confidently into the first cycle of development. Her practical success was largely due to the relative stability of her social system. In the latter part of the twentieth century, the Japanese are likely to enter into the second cycle of development with something of the same energy and assurance. Their social and economic structure at home is still strong, in comparison especially with others which are weakened by class war or blinded by racial feeling.

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The Japanese, as a people, are active and irrepressible because of their hard-workingness, their talent for organisation, and their practical adaptability. All these expressions are relative; this is not to say that they are perfect in these respects, nor to deny that they have great and countervailing defects. But it is to say that they possess these qualities in comparatively high degree; that there are few in Asia who can compete with them in worldly matters; that the survival of this nation is certain; and that the reassertion of its technical superiority is (locally) quite possible. Perhaps nothing throws into sharper relief the general lack of realism, among other East Asian peoples, than the small amount of thought that is given to the great problem of Japan, or the sporadic and scanty attention devoted to it in printed news and comment. The theme leads sometimes to recrimination, but rarely to reflection; more often than not, there is a tacit conspiracy to ignore or minimise the issue — just as, in polite society, one avoids topics that are distasteful. Many, indeed, have good reason to shudder or curse at the mention of Japan; but no one is justified in trying to ignore it. The Europeans have a rather more realistic attitude towards Germany, which to them presents a similar problem.

The Japanese themselves have now an opportunity, strikingly similar to the one presented to them in the last century, of demonstrating their own kind of realism; they show some signs of being able, as they were on the previous occasion, to take the opportunity. Technical leadership in the Far East is again open to them, in some fields, though any other kind of domination is forbidden to them. An immediate and important point is that they are ready, just as they were eighty years ago, to make a practical break with the past. In 1949, as in 1869, they are looking to the future. They find neither pleasure nor use in the exchange of recriminations about the past; and they have enough worldly sense to base their interpretation of the present on a forward-looking, rather than a backward-looking point of view. It is of course more accurate to say, of 1949 as of 1869, that they turn from the recent

past, while respecting the more ancient and fundamental of their national traditions.

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History—according to a well-worn saying—repeats itself. With all due allowance for changed conditions, it appears that the second great phase of Asian development is likely to open with the Far Eastern nations divided into broad groups, on lines remarkably similar to those which prevailed at the beginning of the earlier stage of development, nearly a century ago. First, there are the countries of South-East Asia. In the nineteenth century these had already a "prehistoric" of capitalistic contact with the West; they were familiar with Western ways, and not altogether unwilling to fit into the trade pattern of the occidental world. In the first phase of development they continued on the colonial basis as plantations and centres of primary and extractive activity, with a structure essentially mercantile, strikingly dependent on certain great entrepot cities. In the second cycle of development, they intend greatly to enhance their national status, but must do so as members of a worldwide economy.

Second, there is the great mass of China. There is something about the attitude of the new regime in China which is—in undertone at least—sadly reminiscent of the ancient isolationism. The New China is to be built out of its own resources. The ancient Empire had no need of the barbarians and their products; the New Democracy rejects foreigners and their capital. (Assistance is to come from the greatly, the Soviet Union. An earlier article in this series, *Far Eastern Economic Review*, August 25th developed the view that such aid, however spiritually exhilarating, must be physically limited, and that politically this proposal might be like that of the man who wished to ride a tiger. The recent pronouncement that the needs of Communist China are to be supplied by the Skoda Works in Czechoslovakia is perhaps sufficient illustration of the naivete of the economic calculations of the Communists.) After 1841, some thirty years of inertia and hostility had to be gone through before China even began to be assimilated to the processes of the wider world; a similar period had further to elapse before there were any movements of participation in world affairs on a basis of self-respect and reciprocity. The present prospect is infinitely brighter, but it seems that there must be some gap, a considerable period in which all energies will have to be devoted to internal reform, and a good deal of painful readjustment, before China enters on her secondary phase of development.

Third, there is Japan. Enough has been said above about the immediate psychological differences in the case of Japan. Underlying them there is in the modern age a permanent objective compulsion: Japan is the only country, among all the nations concerned in Asian development, which must earn its living almost entirely in that area,

by trading with or working for the other Eastern countries. A volume of trade and development in Asia at least equal to that of the pre-war period is absolutely indispensable to the Japanese, to assure the latter even the barest livelihood. Any hope of better living, for them, depends mainly on the possibility of an extension of East Asian markets. All the other Asian nations might perhaps survive, at least in the short run, if the whole area ceased to develop and remained at present levels; Japan is the only one which, in the same degree as Britain, must "export or die." Japan may find markets again in other parts of the world; but for obvious reasons, her proper sphere of livelihood is Asia. Japan has, more completely than any of the others what may be called an intrinsic interest in Asian economic development. A large country like China may believe itself more or less self-sufficient. Others in South-East Asia may look partly to themselves and partly to outside links. The Western powers have much to gain from Asian development, and are the greatest potential contributors to it; but, from their own point of view, even their complete withdrawal from the East (if things had to come such a pass) would not mean economic disaster. And there is Russia, whose motives in Asian affairs are, for better or for worse, almost entirely extrinsic.

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On the economic plane especially, the present relative estrangement of Japan from Asian affairs is unreal, and cannot continue very long. In fact it has only been possible because Japan was subsidised by the United States. Practically the whole cost of occupation and supervision has fallen on the U.S. taxpayer. Relief expenditure was also made on a large scale. To these were added, in recent years, vast sums for rehabilitation. Now "reactivation" is proceeding further, and a considerable American investment in Japan is scheduled. During this time, Japan has functioned within the dollar area. She has had a large and increasing deficit on the balance of trade.

Occupation policy in Japan has thus had three phases. The first was the disarmament of the Japanese and the beginning of democratisation. The economic aspect of this was important. It included a successful programme of agrarian reform: on the background of the relatively favourable social position in which the Japanese peasantry found themselves by the end of the war, as compared to that of farmers in other Eastern countries, these measures have largely immunised Japan from the contemporary trend of rural-based Communist agitation. It proceeded with the liquidation of the zaibatsu, the large monopolistic trusts. On this point, as on the question of political democratisation, there was much criticism and scepticism, to the effect that the former masters of Japan remained in real control and were outwitting the Occupation authorities. It is undeniable however that their central organisa-

tions were physically destroyed; and some counter-scepticism is allowable, on the score that the Supreme Commander is one of the few eminent Americans who has an "inside" knowledge of Far Eastern psychology, is one of the few Allied commanders who had the measure of the Japanese from the start of the war, and is hardly the type to be so easily hoodwinked.

The second phase is that of rehabilitation. It involved at the start a further question in respect of the liquidation of the zaibatsu. Initiative and the roles of coordination and enterprise were so heavily concentrated in the hands of these persons that there seemed no one to take their place. It is generally stated that the holdings were in effect handed over to their "lieutenants," their senior managers and technicians. This is broadly true, but it may give a false impression if the process is not visualised in terms of the actual background within Japan; the influence of the new heads is much checked—quite apart from Occupation supervision—by the work of the new trade union movement, which exerts a pressure comparable to that of Social Democracy in England, by the special Japanese structure of guild and group arrangements, and by the bureaucratic machinery and traditions of the Japanese administration.

The third phase, which has been termed "reactivation," is now imminent, or has already begun. The American taxpayer has for some time been restive under the extra burden placed on him by Japan; Japan must pay her way. She must again open trade and other practical contacts with the outside world; it is now apparently proposed to give some elementary facilities in that direction. Meanwhile American private enterprise has become interested in direct investment in Japan.

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It may not be long before Japan reappears as a major factor in the Far Eastern economy. This series of articles deals with "Basic Trends" and cannot discuss the consequences in detail, but a few general points may be made here. The assumption is at present that some overall settlement in the Far East is envisaged, including economic arrangements which in some kind or degree would resemble the "Marshall Plan" conception of mutual aid. In an American approach on these lines, Japan would obviously play an important part. It seems wise to discount the prevalent impression that any Japanese trade drive would be less formidable than that country's pre-war efforts. It is true that Japan's material difficulties will be very much greater; but so also will be the necessity driving the Japanese. There is a tendency to forget how thorough was pre-war Japanese organisation of production and trade; their structure of guilds, trade associations, "control bodies," official and unofficial bureaux, etc. was indeed over-complicated in some ways, but in others it had great advantages. There have been many

changes in Japan in the post-war years, but the essential basis of this system, and the organisational habits it implies, remain deep-rooted. The Japanese are ant-like in their industriousness, but also in their talent for integrating and systematising their activities. If this were linked with American energy and imagination in commercial matters, the combination could be formidable.

In any international arrangement on Marshall Plan lines, Japan would be the most amenable participant and a singularly flexible part of the machinery. Her developing foreign trade revival has from the start been patterned on a network of parts with individual countries and the sterling area, arranged by the Occupation authorities. Few countries are so "controlled" and "regulated" as Japan; it is an irony of history that it should fall to the homeland of Individualism, the United States, to have charge of a country so constituted, and to contemplate using it for the purposes of a great scheme of international planning.

A main difficulty in the path of such a policy is of course the other countries' fear of Japanese competition. The only full answer to this is perhaps for the scheme to be essentially one of international division of labour. In the main, Japanese and British products (for instance) are in non-competing groups; where they do not differ in kind, they generally differ sufficiently in quality to be considered as serving different markets. This is of course an over-simplification; there are some cases of direct competition, and many of marginal competition; and the effects of any influx of cheap goods are not localised to one price-level or place. In an overall plan, however, such matters are adjustable. Broadly speaking, Japan is likely to be cast again for the role of supplying the "coolie markets." But this is a very important role; and if the plan is essentially a development scheme, in which the other countries are concentrating on primary and basic production for quite a long term, it means the provision of "incentive goods" especially in this category, which the other prospective participants are in general less well-placed to provide. The possibilities of Japan as a supplier of light machinery, and perhaps particularly of agricultural equipment, chemicals, etc., must however also be considered.

It seems however evident that in general the introduction of Japan into any such overall plan would be inconsistent with her remaining, as she is at present, on a hard currency basis; so long, at any rate, as the other countries concerned are "soft." If the arrangement is one of aid in the form of a dollar pool, like the Marshall Plan, this barrier is lowered (though not altogether abolished). If the policy is for increased Japanese participation on the present basis, the result is a multiplication of the uncertainties of bilateral dealing or group arrangements which (as in the Sterling Area arrangement with Japan) one side or the other represents as a "drain" or a bad bargain.

Outlook for Hongkong-China Relations

The British Government, local authorities and the commercial community irrespective of nationality and race have clearly indicated, by word and action, that continuation of amicable relations with neighbouring China is very much desired. Trade is the principal occupation of the Colony's inhabitants and anything which interferes with business is resented here. Although there are prejudices especially among the middle classes against the rule of the Chinese Communist Party (CCP) and one suspects — with ever more well-founded justification — the subservience of the CCP to Moscow's internationally laid-out policy of world revolution and Soviet hegemony, the local community would prefer to be left out of all political discussions, devoting itself solely to the pursuit of trade and money-making. In this desire the local citizens find themselves supported by Government who would be satisfied if this view of the common man would also be shared by the CCP in Peiping.

Unfortunately, earlier anticipations of possibly correct if not amicable relations between Hongkong and China may prove difficult to maintain at the moment. In spite of the obvious anxiety of Hongkong—the community at large and the authorities—to devote all interest to the promotion of trade and to obviate any tension, recent radio and press rumblings in CCP controlled China have put the Colony on the alert. There is now sufficient evidence that at least a faction inside the CCP and among some of the communist allies, notably the so-called KMT revolutionary committee under Marshal Li Chaisum, have elected to cause ill-will among the Chinese against the British administration of Hongkong and ulterior motives have become apparent. Whether the CCP Politburo supports an unfriendly policy vis-a-vis Hongkong may be doubted at the moment; mutual profit would only result if Hongkong-China trade is not interrupted and if communist China would, through the entrepot of this Colony, maintain links with an otherwise not very cooperative outside world. Therefore, one might assume, and in spite of possible promptings by Moscow, the forthcoming CCP dominated coalition government of 'red' China may find it advantageous to keep relations with Hongkong unruffled. This is the sanguine view taken but there are other counsels which urge that the world-

wide strategic considerations of the USSR must be taken into calculation when forecasting the future of Hongkong-China (i.e. Anglo-Chinese relations in the final analysis) agreement or disagreement.

The Imperial Government has left nothing to chance; very elaborate military preparations have been made and are now about to be completed. This is obviously a very costly enterprise but preparedness costs much money. That some sort of US financial support may be granted so as to ease the burden of British defence expenditure in the Far East was recently mooted in London and Washington and it appears logical to expect that, on the record of US assistance during the post-war years to countries which were directly or indirectly coming under communist aggressive attacks, the financial if not other support of the US will not be long in materialising. Hongkong is, to judge by the facts revealed by the local commander-in-chief at a recent public press conference, in a very good defence position which should discourage any aggressive designs by the CCP. It is however always emphasised here, by merchants and government officials, that a military campaign against the Colony by the People's Liberation army is most improbable; although the propaganda inside 'red' China is very insistent about the 'strength' of the 'red' army it is clear to everybody who knows his China and this country's industrial inadequacy to sustain a modern army that there will be no military adventure. Thus, the military preparedness of Hongkong may be regarded as a very expensive luxury — nevertheless, it is essential that a potentially hostile neighbour be shown that Britain, while most accommodating if it comes to matters of trade promotion and other peaceful business, is determined to maintain Hongkong as a British colony and will not submit to any pressure.

Government here is in a ticklish position; on one hand it is necessary to give proof of one's desire to maintain cordial relations with a CCP ruled China, to proceed tactfully, be conciliatory if it comes to controversial questions and show accommodation to justified requests by the Chinese authorities (of whatever political complexion) but on the other hand it is equally necessary to indicate firmness and determination to defend the sovereignty of Hongkong. The very fact that a large defence force, consisting of battle-experienced land forces, a strong naval force and several R.A.F. squadrons of fighters and bombers—aggregating over 30,000 men—is being assembled here, may be construed by a hostile communist press as constituting a danger to the security of the 'new' China. With all diplomatic skill it will be often embarrassing to glide over the contradictions inherent in the political situation arising from the 'red' rule over China. With good will, on both sides of the Hongkong-Kwangtung border, relations may develop correct-

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ly, particularly so if considerations of mutual benefit are shaping the course of Anglo-Chinese politics.

For the purpose of smoothing out political arguments with the Chinese authorities Government here is provided with a Special Adviser and a Political Adviser; but at the same time, testifying to the importance of the security of the Colony, there are three assistant colonial secretaries attached to Government for the purpose of looking after the defence of Hongkong. A small but efficient locally recruited volunteer defence force is being trained, the police force has been brought up to the highest total in its history and liaison between these two forces and the military is closely maintained. At the same time Government has drafted elaborate legislation which is suitable to combat any internal disorders or agitation leading to disturbance of peace and order in the Colony. The requisite new ordinances (or amendments to old ordinances) have all been passed by Legislative Council. The principal emergency legislation enacted during recent months provides for (a) the virtual prohibition of political parties, associations and movements if they have their origin or direction abroad, thus preventing the extension of the political strife in China to engulf a portion of the local Chinese population and at the same nipping in the bud the legal establishment of the CCP in Hongkong; (b) the prohibition of strikes if politically inspired; (c) the deportation of undesirables and persons suspected of fostering sedition; (d) the control of the population under emergency conditions.

Several steps taken by Government here to curb communist agitation have already aroused much indignant comment from Peiping radio; the search of the house of a local CCP official, the closure of a school for communist indoctrination, the warning to the communist news agency with regard to defamatory reports about the British navy, and one or two other matters were taken up by the Peiping propaganda but significantly enough it was not the CCP which commented but some of the so-called democratic associations which are about to form with the CCP the 'coalition government.' As one is used to violent language and abusive epithets from the communist press and radio the attacks on Hongkong, by way of comment on the several actions by the local Government, were considered mild, however, nobody overlooked the spirit behind these 'comments.' The most obnoxious matter in these Peiping radio attacks, faithfully reproduced by the local communist press, was the attempt to interfere in domestic conditions of Hongkong by championing the rights of the alleged oppressed residents here. Under present conditions of unbalanced Hongkong-China relations it would be imprudent to ignore these attacks although by their very absurdity and contortion of actual conditions in Hongkong one should disregard them.

The CCP exists in Hongkong but has never come out into the open. Under present emergency legislation it could not apply for registration as a political party in the Colony and it is doubtful that if legislation was not enacted the CCP would have preferred to establish itself openly and legally. While previously the KMT functioned on a rather extensive scale in the Colony and a host of small parties and political associations maintained offices and even 'China headquarters' in Hongkong, the CCP chose to operate as it were unofficially. There is however now as in the past a very virile communist press in Hongkong which has never been interfered with and which has during recent months increased in size and volatility. Not infrequently this press is most unappreciative of the tolerance and truly democratic freedom of speech which is practised in Hongkong—in contradistinction to cities in China where censorship prevails and the distribution of foreign news services is prohibited with nothing but the communist party line being served to a public who no longer have access to non-communist information (except by means of shortwave broadcasts). It has happened here that some more vitriolic editors of communist publications have overstepped the limits of permissible comment and have indulged in slanderous language which in many other countries would have resulted in libel suits and severe penalties, however, no action was taken here and it is not impossible that the offending journalists are of the opinion now that there is reluctance on the part of the local authorities to curb the 'red' press for fear of retaliatory measures in 'red' China. Socially, the local communists have only once arranged a function for the public; three days after the fall of Nanking the local CP gave a cocktail party in the Hongkong Hotel when CP members, sympathisers and other selected persons were invited to celebrate the occasion. In the absence of party officials—or in order to make it appear as if no other high-ranking CP members were in Hongkong—the hosts were Mr. Chiao Mu, the head of the New China News Agency local branch, and his wife (known also under the name of Miss Kung Peng).

In the local labour movement the CCP has a strong footing in the unions which have combined some months ago in the "Hongkong Kowloon Trade Unions Federation." But on the whole, and particularly considering the Malayan insurrection which was caused by government-labour differences and which has found its main support among workers, the local labour situation is as quiet as at any time before. The relative absence of political interest by organised labour in Hongkong is partly attributable to the maturity of labour leaders here and the high standard of living enjoyed by workers when compared to conditions in other Far Eastern countries. The field for communist agitation is therefore small. Only under present conditions of an entrepot and a British colony can the

community, and with it labour, expect favourable and prosperous working. Labour stands to lose in case of a political change in the status of Hongkong. This is being realised and therefore there is little support for any potential agitation among the workers of the Colony to attract them to the ideology of communism. Nevertheless it is a fact that the numerically and relatively largest support which the CCP could muster here comes from labour; students and a certain group of intellectuals are of minor importance although they are more vocal and enthusiastic.

In the face of the extension of communist power in China and of the impending formation of a CCP dominated coalition government in Peiping the attitude of Hongkong vis-a-vis the 'new China' must be defined. It would seem most politic to emphasise trade relations and other economic activities which would redound to the mutual well-being of both neighbours, however, this ostrich policy may be possible to pursue only for some time when it will become imperative to come out into the open with a real program. Barring any vital changes in the current pattern of cold war operations and, of course, the outbreak of the anticipated world war III, Hongkong's policy with regard to a communist ruled China—submissive to the Soviet Union especially in all matters of foreign policy—will be in accordance with the concepts of London and Washington, i.e. preparedness, suspicion, avoidance of friction, trade relations subject to military-strategic considerations.

The free-trading community of Hongkong would certainly like to avoid being drawn into any conflict but such wish is impossible of fulfilment. The best which can be done under present cold war tensions and the increasingly accumulating evidence of 'red' China acting at the behest of Moscow is to concentrate on promotion of business with China having, however, due regard to certain limitations which must be imposed on trade with any country which has come, or is coming now, under the control of the Soviet Union. Merchants, being usually though not entirely, addicted to profit-making may try, especially if inducements are attractive, to run a military-strategically imposed blockade and thus may cause the tightening of trade controls to be directed against China under the CCP. For the time being there is however no real danger for dispatching to 'red' China such materials which may help in the building up of a modern war industry or otherwise provide the People's Liberation army with weapons and ammunition which one day might be turned to use against Hongkong itself.

If it was only possible to appease the new rulers of China the whole picture in the Far East would undergo a fundamental change. It is however unlikely that, at least for some considerable time to come, there will be adopted a new and more realistic course of action by the CCP. That

there is no unison in the highest councils of the CCP on matters of foreign policy can be taken for granted; the all-too-obvious and almost obsequious courting of the Soviet Union by the CCP has come to most politically conscious Chinese as a shock and the unending shower of fulsome praise of anything the Soviets say or do is causing much resentment even among staunch communists. The seeds for a Moscow-Beiping split have been sown long ago; the present stage of development in China is favourable for the CCP's regaining a more independent position. With luck, tact and adequate inducements it might not be impossible to speed up this development. Until such a change comes to pass—if ever it does—the situation here remains as succinctly stated by the Governor of the Colony some time ago: Prepare for the worst, hope for the best. The old Romans had another appropriate saying: *Si vis pacem, para bellum.*

Shanghai under the New Regime

If it was not for the effects of the KMT imposed blockade the progress of rehabilitation in Shanghai would have been faster however even under present war-like conditions the administration has accomplished a remarkably efficient job. There have been a few cases of minor officials being discovered of extorting money from the people or otherwise indulging in the traditional forms of squeeze but on the whole the new men in control of affairs in Shanghai have lived up to the public's expectation of honesty, integrity and relative efficiency of communist-trained personnel. Until the new authorities were able to take over and organise the various municipal departments there was some degree of insecurity mainly by riotous workers and a few boisterous union leaders; but now the situation is well controlled by the civil administration (largely composed, especially in the upper brackets, of former military officers) which no longer shirks to call 'irresponsible' workers to order and insists on the unhampered carrying-out of Mao Tsetung's policy of 'New Democracy', i.e. retention of capitalism during an undefined interim period, slow change-over to socialist economy.

Confidence of businessmen and all non-KMT affiliated capitalists is returning. The imposition of taxes is felt often as bordering on the confiscatory level but it is appreciated that the government and army have to obtain the necessary funds from the public failing which inflation of the currency is the only way open. The tendency to expropriate certain industrialists and property owners has been suppressed and care is taken by the new authorities to discourage extremists and any elements who—for communist zeal or other less noble reasons—might dis-

turb the economy of Shanghai. Emphasis is laid on production expansion, more working hours, less labour remuneration, adequate profits for capital and management, in short, the school of thought of free enterprise appears triumphant for the moment. State-owned corporations and bureaus are on the increase but they do not encroach on the business of private firms; in fact, the new regime just took over the state or KMT owned and controlled companies etc. and carries on their business, with more efficiency and less (if any) graft and corruption. That the future may bring considerable extension of state-owned corporations is likely but the length of the so-called interim period, prior to reaching the communist paradise anteroom, is certainly sufficient for the present generation to earn a good living if their wits and luck do not fail them.

Anti-foreignism has been a real menace under the former KMT regime and it was feared that under the new political dispensation more violent outbursts of anti-foreignism could occur. There are, especially in Shanghai which city is distinguished for viciousness in many respects, many professional troublemakers and anti-foreign campaigners; but these persons found themselves frustrated in their endeavours to stir up hatred against foreigners. The communists, the world over, are internationalists and anti-foreignism is regarded, and treated, as a crime just as much as persecution of people because of their race or religion. Under communism no distinction—at least theoretically—is to be made between Chinese and non-Chinese; although there is a deep-seated anti-foreign complex in China (not among the farmers but so much more among certain intellectuals and returned students) and the looting instinct is ever on the alert, foreigners in Shanghai fared well under the new regime and enjoy full protection by the authorities. Nevertheless, some communist affiliated papers are time and again using insulting language when it comes to foreign nationals in China and otherwise do not follow the strict communist party line in matters of dealing with non-Chinese. This inferiority complex inspired verbosity in some of the Chinese publications should not mislead one to believe that there is an official tendency to instigate or even to tolerate anti-foreignism. The very fact that the Russians are daily extolled and anything which is in connection with the foreigners other than Anglo-American 'imperialists' is praised very highly should serve to dispel the notion of anti-foreignism in the 'new China'.

Foreign names (not only the ubiquitous red saints Marx and Lenin) of leading socialists in various European 'people's democracies' are constantly dinned into the ears of the Chinese, and Russians are made the object of fulsome praise.

That a vitriolic though crude and naive propaganda campaign is waged against the American 'imperialists'—with other Western countries' miscreants sharing a good measure of this slander—must be understood as one of the forms of attack in the cold war of today. Sofia, Bucharest and Warsaw talk the same language today as does Beiping—the gist being prepared in Moscow with some latitude given to non-Russian commentators with a vocabulary of scurrilous terms unequalled by Homer's Iliad.

It would appear impolitic from the general point of view of the Chinese today to continue with this vicious anti-American propaganda; when the US was supporting the KMT there was some ground for this propaganda but at present when the KMT no longer receives any tangible US aid and is left to fend for itself, and the official line in Washington has changed to one of compromise with the new regime in China, the endless harping on alleged US misdeeds in the past and the slanderous attacks on anything which America proposes, must be interpreted as war support by the Chinese communists to Soviet Russia. By more conciliatory behaviour China stands to gain but slipping entirely under Moscow's control the outlook for the Chinese people is dim. Common sense, one of the alleged great national traits of the Chinese, seems to have been discarded in the high councils of the CCP. It is significant that the propaganda in 'red' China does not assail capitalists but continually 'imperialists' and is singling out American as the greatest villain in human history. This sort of silly propaganda has already backfired; even the less intelligent sector of the public is ridiculing the communist tirades and those gifted with more critical ability are turning away from communism because of its excesses in political propaganda and reiterations of the absurd.

The majority of Shanghai's active and earning population is engaged in commerce and is therefore mainly interested in getting on with their businesses irrespective of official policies. As Hongkong is 'red' China's principal trading partner at the moment relations with the Colony are of utmost importance. There is some trade going on with US and Japan but most ships calling on Shanghai and North China ports come from and return to Hongkong. Among Shanghai merchants there is much confidence expressed in the uninterrupted flow of goods, both ways, and the continued amicable relations between China and Hongkong. No reason for any tension brought about by Chinese communist policy is being discerned and the general consensus of opinion is that the status of Hongkong is not in any form or manner questioned by the new regime in Beiping. It is to the mutual advantage to exchange commodities between China and Hongkong and nobody would profit

ECONOMIC NEWS FROM THE UNITED STATES

By E. Kann

(Special to The Far Eastern Economic Review)

British American Dollar Conference

After extensive preparations the Anglo-American economic conference in Washington is about to be inaugurated when this letter is being posted. The six-point program is intended to ease, and not to solve, England's financial crisis. That the meeting, in which Canada also is taking a part, is surrounded by feelings of gloom cannot be denied. Preliminary negotiations in the capital are meant to facilitate discussions on certain essential points. The following points are on the agenda: (1) A further reduction of British purchases from America. (2) Relaxing the conditions of the 1946 British loan agreement with U.S.A., permitting Britain to further discriminate during her financial difficulties against American merchandise payable in hard dollars. (3) An organized advertising campaign for British goods to be sold in U.S.A. (4) Streamlining American customs regulations to facilitate the entry of English products. (5) Enlarging and speeding up of American acquisition of rubber and tin from Malaya, for the purpose of providing colonies with dollars. (6) Additional U.S. loans and further purchases from Southeast Asian members of the British Commonwealth.

Arguments for a square deal for Britain are common knowledge. Her having gone through a terrific wartime ordeal, was followed by strenuous efforts at reconstruction, entailing untold privations. She broke many records in productive output and in export volumes, so that she is entitled to obtain more consideration.

America, on the other hand, counters that Britain merely is one of the 19 nations being supported. There exists a body of opinion in this country, believing that the £ at 4.02 is too high priced a currency and that the English authorities' refusal to devalue the pound works against American, and even British, interest.

At this juncture Britain is earning \$600,000,000 from her exports. But in order to satisfy her requirements, she must export to the extent of \$1,800,000,000. Another complaint is that American import tariffs are too high; however, the answer is that they are the same as they stood in 1914. Furthermore, it ought to be recalled that,

from an interruption of this traffic. The neutrality of Hongkong has been often proved in China's internal upheavals and in the current civil war the traders and government of Hongkong have always correctly proceeded, no favour was shown to any belligerent while refugees found a secure haven in the Colony.

in 1929, England had no difficulties in disposing in the American market goods for 1 billion dollars.

As regards American purchases of rubber from British colonial sources, it will be useful to remember that at present 600,000 tons of the Malayan product are being imported into this country every year. To enlarge this quantity to any extent would mean shutting down local synthetic rubber plants.

Indubitably American goodwill is there, and the intention to help Britain is ardent. Possibly some new loans to the Dominions might eventuate. More tourists might be directed to the British isles; more British tonnage might be utilized. However, to all appearances the American Government, having assisted Britain in her hour of need in a most unselfish and even magnificent manner, is unlikely to be able to grant much more extended aid. Such might have to come from private capital in future.

Quite recently I heard a broadcast, coming from the influential and well-informed Washington columnist Drew Pearson who, on Sunday nights, terminates his news-cast with "predictions," 80% of which he claims to have been realized. In his last report Pearson predicted that financial conditions in Britain are so hopelessly bad, that shortly she will ask the United States to take over the garrisoning of the Straits Settlements, Iraque, Egypt, etc, etc. He made no mention of Hongkong.

British Industries Run by Labour

In my last report I supplied extracts from a series of articles by editor E. T. Leech, written for the Scripps-Howard chain of newspapers and appearing in serial form in numerous American journals. In continuing today I can merely supply brief extracts, due to lack of space. In doing so, I wish it to be clearly understood, that none of the opinions expressed are my own.

Commenting on the recent announced price cut of 5%, which hit the small shopkeeper especially hard, Mr. Leech considers this step as an outcome of desperation. It followed a 24-day dockstrike, sporadic railway showdowns and an endless chain of economic difficulties. British business, both state-owned and private, runs under an amazing network of planning. There are plans within plans; bureaus within bureaus; national, regional, local and plant committees; export and import licenses; priorities for raw material, machinery and labour. Endless forms to be filled in and records to be kept. Plans get snarled, and are supplanted or modified by new plans. As rules often fail to work, they are bolstered by new rules. Actually there is no free business in Britain today.

The British Labour Party's platform is: "Government must accept responsibility for economic planning for the nation as a whole." The basic difference between the British plan and the plans developed under Stalin, Hitler and Mussolini has been in the use of force. In Britain the individual has remained free. Beyond employing the power to freeze coal miners in their jobs, the Government has scarcely touched its authority to control employment. By and large, the British Government has followed democratic methods in putting over its program. It tolerates free speech and political opposition. Personal liberty lives in England.

How long will this continue? Will a Government, already deeply in trouble, with many of its plans continually going awry, resist the temptation to enforce by compulsion what it cannot do by persuasion? Will it yield to the old snare that the end justifies the means, and that those who resist what is planned to help them must be forced along for their own good? That cross-road is being approached by Britain. The answer may be found in the general election next spring or summer.

Taxation in England is used not merely to raise revenue for her extensive social service and security systems, and to pay the losses of her state-industries, but also to level off society. It aims at a narrow gap of income, so that nobody will be real poor or very rich. Francis Williams, for two years public relations adviser to Premier Attlee, outlines these aims in an excellent book "Socialist Britain." They seek a minimum income of \$1,000 to 1,200, with a maximum of about \$10,000 to 12,000, which is to include salaries and investment incomes. The socialists have done well at cutting down the upper incomes through heavy personal and business taxes, levies on inheritances and even levy on capital. But they have still a long way to go raising the lower incomes.

The Metal Markets in America

There is no doubt that the auspices for metals in this country are good. Steel production points upward. Plants are now working at 86.3% of capacity.

Copper consumption during the last week of August aggregated from 4,000 to 9,000 tons a day, compared with 3,400 tons the preceding week. Producers during the month of August delivered to manufacturers 80,000 of copper, compared with 45,000 in course of July. The price of copper remains firm at 17.5/8 cents a pound.

The demand for lead continues good, and prices are unchanged at 15½ cents a pound. It is understood that orders of lead supplies for September delivery are larger than the output is likely to be.

Zinc prices were unexpectedly upped to 10½ cents pound last week.

On the other hand, aluminium production is being curtailed in Canada owing to declining demand for export. Price 17 cents a pound.

Antimony is quoted at 41½ cents a pound; nickel 40 cents a pound, platinum \$69 an ounce. Tin \$1.03 a pound.

Automobile Industry still in High Gear

Though selling motor cars is not quite as easy as before, the manufacture of cars is increasing. The output for August is estimated at 655,000 units, — a new record high. If factories can continue the present rate of production, the 1949 output for U.S.A. and Canada will aggregate 6,875,000 vehicles.

Since the end of the war about 11½ million passenger cars will have been built. Consequently 34% of the estimated 33.5 million registered vehicles are now less than three years old.

The Freight Car Market

On the other hand, the market for new freight cars is not good. In the last two years railroad freight car manufacturers have been kept rather busy. Since June, 1947, approximately 230,000 have been built for domestic use. But by July 1, 1949, only 42,800 cars remained on order, sufficient for about five months work. Now orders have dried up almost completely.

Actually 500,000 new cars are needed, according to transportation experts; of these 300,000 are meant to replace the freight cars over 30 years old, and 200,000 freight cars to bring car capacity up to levels considered safe during emergency periods. However, since railroad incomes are now declining, companies are not likely to re-enter the car market. At present about 1,770,000 cars are on the rails in this country, and these are sufficient for requirements.

Under such circumstances American Car & Foundry, as well as Pressed Steel Car Co., will probably encounter deficit operations. Another major car builder, General American Transportation, has besides car building other major lucrative operations to make good any losses in the car division.

Items of General Interest

Sinclair Oil Co., at the end of August, announced a huge expansion program for the production of crude oil. Same is to extend over 5 years and to involve \$250,000,000. To begin operations a loan for \$50,000,000 was arranged with an insurance company, calling for 3% interest and running for 25 years. The aim of the expansion program is to increase production in the United States by 50,000 barrels a day within 5 years. Prior to the recent cut-back Sinclair's output aggregated 100,000 barrels daily. Refineries are to be modernized and pipelines are to be laid. The company's oil lease in U.S.A. cover more than 5 million acres, of which 225,000 acres are termed proven.

Consolidated Vultee Aircraft (Convair) of San Diego, reports a semi-annual profit (for the 6 months ended May 31) of \$1,585,000, compared with a loss of \$7,534,000 for the identical term of 1948.

CURRENCY & BANKING IN THE FAR EAST

CURRENCY IN FAR EASTERN COUNTRIES IN 1948.

(1) Changes in Monetary Systems

A currency reform was introduced in China on August 19, 1948, which was a complete failure ("gold yuan"). In those parts of China held by the Communist authorities the Peoples' Bank of China was established in December 1948 as the central bank having the sole right of note-issue for the areas under Communist control. The currency system is to be a managed one and the note issue is to be backed by

While cash dividends in U.S.A. in July were slightly less than those paid in July, 1948, the amounts paid for the 3 months ended July 31, 1949, in the form of dividends reached \$1,512,700,000. This is 8% above the corresponding period of 1948, according to reports from the Commerce Department.

Radio Keith Orpheum Corporation, report a net profit of \$2,207,000 (or 57 cents a share) for the first half of 1949. Net income for the comparable period last year was \$1,902,000, or 49 cents a share.

Lockheed Aircraft Corporation discloses a much reduced net profit for the first semester of 1949, viz., \$2,237,000 (\$2.08 a share), as compared with \$5,310,000 or \$4.93 a share last year (1st half). It is pointed out that, while last year only 7% of incoming orders were for private account, now these constitute 20% of the total.

Record has been set for advertising. Sears Roebuck & Co., mail-order house of Chicago, is the largest retail advertiser in newspapers. Last year the said firm disbursed \$24,571,000 for advertising, an increase of 28% over the previous all-time high. General Motors was the next largest advertiser in newspapers, having spent last year \$15,282,000 for this purpose.

Television for Motion Picture Theatres

During the first half of this year exports of American motion picture films were 13 million linear feet less than during the comparable period of 1948; this meant a reduction in value of nearly two million dollars.

Since the movie business in the States also is not good, theatre owners and picture interests in general have long ago eyed the possibility to adapt television. A new such system has now been proposed for exclusive theatre use. Film engineers state that a large segment of radio spectrum should be set aside for the theatre television use. The location should be beyond the reach of home receiving sets. Through use of the system, motion pictures could be relayed from a central film place to suburban theatres in the same district." Theatre television will endeavour to offer material paralleling in a general fashion that presented by the legitimate theatre, radio and motion pictures, but adding the important element of immediacy," the statement asserts.

essential commodities such as food, cloth, etc. No free market in foreign exchange is to be permitted.

The Central Bank of the Philippines, the establishment of which was decided upon in 1947, was inaugurated on 3 January, 1948. This ushers in a new era in the currency history of the country. The automatic dollar exchange standard has been abandoned and an independent currency system established. The Central Bank has been vested with the sole right of note issue and has been given wide powers for the expansion or contraction of the money supply in accordance with the requirements of the country. It is required to maintain the existing rate of exchange, namely US\$1.0=P2, although under certain conditions the rate may be altered.

The Indochinese piastre is the common legal tender of the *Associated States of Indochina* (Viet-Nam, Cambodia and Laos) and is at present issued by the Banque de l'Indochine which is neither a central bank nor a government bank. The introduction of a currency reform in Indochina was decided upon in 1946. An important step in this direction was taken on 10 July, 1947 by an agreement between the French Government and the Banque de l'Indochine according to which the latter renounced its right of note issue. The agreement was ratified by the French Parliament by an Act on 25 September, 1948. Another Act was passed on the same date authorizing the establishment of a Currency Board. The Board would be under the control of the High Commissioner and would have a monopoly of note issue in Indochina. So long as there is exchange control in Indochina, its note issue is to be backed by French francs, Treasury Bonds in Indochina, and by advance payments to the Indochinese Treasury. In the event of the suspension of the exchange control, the Act provides for the backing of the note issue by gold or foreign exchange. The Board's holding of French francs is not to fall below, nor its advance payments to the Treasury to exceed, 33 per cent of the note circulation. The Board will maintain the parity of the piastre with the French franc at the existing rate, namely 1 piastre=17 francs, but will have the power to modify the rate in certain circumstances. The issue of currency will not be subject to political interference. An important feature of the Board is that it is not to perform other central banking functions. It will not provide rediscounting facilities or otherwise control credit. This was considered necessary in view of the fact that its jurisdiction as currency authority would extend over a number of States which have not yet decided to have a common institution for the control of credit. Since the passage of the two Acts on 25 September, 1948,

Indochina has entered upon the transitional period provided for in the agreement dated 10 July, 1947 between the French Government and the Banque de l'Indochine. The latter continues to be the currency authority until the Board starts functioning. The existing note issue of the Banque de l'Indochine is based on the exchange standard, namely the fixed convertibility of the piastre into the French franc and is therefore automatic and rigid. A certain measure of elasticity would be introduced under the reformed scheme of note issue by the proposed Currency Board.

No changes have been reported in the monetary systems of Burma, Japan, Malaya and Siam. *Burma's* central bank which started functioning with effect from January 1948 is not to perform any currency functions; the Currency Board which was established in April, 1947 continues to be the currency authority.

(2) Composition of Currency Reserves

Currency reserves are nowadays regarded as important not so much to provide for the internal convertibility of paper money as to ensure its convertibility into foreign exchange, consistently with the needs of the economy. Another important object of the reserve requirements is to provide a safeguard against excessive note issue. Furthermore, in so far as the reserves are sound and consist of gold, foreign exchange, etc., they do much to inspire public confidence in the currency—a factor of no mean importance. But the soundness of the reserves does not, by itself, ensure the successful working of a monetary system.

There is always a hard core of currency which must remain in circulation for the public cannot do without it. No liquid reserves are required against this. A currency system can work successfully if it has in its reserves more than sufficient foreign exchange to meet all eventualities that are likely to arise. This may not necessarily be a very large part of the total currency reserves.

An examination of the reserves and of changes in their composition gives a fairly good idea of the present position and working of the various currency systems. The reserves usually consist of gold and silver, foreign exchange, including the securities of foreign Governments, securities of the home Government and other assets. A significant development has been that gold no longer occupies an important position in the currency reserves. This is a basic change. In the days of the gold standard, countries which were on the gold standard had to maintain substantial quantities of gold in their currency reserves to ensure the convertibility of the local currency into gold. Countries on an exchange standard, whether it was the sterlini, dollar, franc or the guilder exchange standard, held substantial amounts of gold

in their currency reserves, because their holdings of foreign currencies were in effect as good as gold, since those currencies were based on gold. After the breakdown of the international gold standard in 1931, and later during World War II, the importance of gold in the currency reserves substantially declined.

The proportion of gold in the currency reserve of Siam is substantial. A considerable part of it is held in Japan. In the case of countries on the exchange standard, the "gold" holdings which consisted mainly of foreign exchange, lost their gold character when the foreign currencies concerned ceased to be convertible into gold. The small proportion of gold in the reserves does not, of course, by itself detract from the soundness of the currency systems.

The Hongkong currency is based on the automatic sterling exchange standard. All notes in excess of a small fiduciary issue are to be covered 100 per cent by the Hongkong Government Certificates of Indebtedness which the three issuing banks can obtain from the Government against payment of sterling in London. Exact information about the sterling assets is not available, but these constitute a very high proportion of the currency reserves.

The foreign exchange reserves of the Malayan currency amounted to 107.7 per cent of the total note issue on 31 December, 1947. The law regulating the issue of currency requires that the assets of the Malayan Currency Fund are not to fall below 110 per cent of its liabilities. The currency is based on the automatic sterling exchange standard and can, therefore, be issued only against sterling credited to the account of the Currency Fund in London. The sterling holdings of the Malayan Currency Fund are not blocked. They consist of liquid assets and of longterm securities. The former exceeded 62 per cent of the note circulation on 31 December, 1947. The liquid assets of the Currency Fund declined to 41 per cent of the note issue on 30 June, 1948. But even this is far in excess of any possible requirements of foreign exchange.

The foreign exchange holdings of the Central Bank of the Philippines amounted to 114.9 per cent of the note issue on 31 January, 1949. These holdings consist of dollar assets and cover certain other liabilities of the Bank besides the note issue.

The combined reserves of gold, silver and foreign exchange in the Far East, with the exception of China and Japan, are sufficient to enable the successful working of the currency systems, provided that general economic and political conditions are satisfactory.

(3) Tendency Towards Managed Currencies

The tendency towards managed currencies has become more pronounced. The inauguration of the Central Bank of the Philippines on 3 January, 1949, marks the abandonment of the automa-

tic dollar exchange standard and the introduction of an independent managed currency system. The note issue of the Bank has to be covered by assets which have not been defined. This allows the Bank full discretion to expand or contract the volume of currency in accordance with the requirements of the country and not with the availability of dollars. It is required to maintain the existing rate of exchange, namely US\$1=P2. Under certain conditions the rate can be altered, but only with the agreement of the President of the United States of America.

The new currency system which is being introduced in Indochina envisages a certain degree of management. The reserve requirements for note issue are such as to leave an element of liberty to the Currency Board in the matter of expansion or contraction of currency. The Board is required to maintain the parity of the piastre with the French franc at the existing rate, but it has been given power to modify the rate under certain conditions.

Malaya and Hongkong continue to be on the sterling exchange standard, and there has been no move for the introduction of an element of management into their currency systems. This is partly explained by the fact that both Singapore and Hongkong are mainly entrepot centres and, therefore, the question of the adjustment of the internal cost-price structure to world conditions through the monetary mechanism does not arise. Exchange stability is of much greater importance, and this is achieved through the exchange standard, to some extent limited, in the case of Hongkong, by the existence of a free exchange market.

The currency reform of 19 August, 1948 in China was an ambitious attempt to put the monetary system on sound lines in a manner in which the element of "management" was to play a very important role. The attempt failed because certain basic conditions for success were lacking. The experience of China has shown that mere management is no panacea for the currency ills of a country. The general political and economic conditions in the country and the ability and skill of the currency authorities play a determining role in the success of a managed system.

(4) Exchange Control

On account of the serious shortage of foreign exchange, dealings in it remain subject to control in varying degree in all countries of the Far East. In order to make the best use of limited resources, the control measures usually required the surrender of foreign exchange earnings which were made available to importers and others for approved purposes only.

There was no important change in the system of exchange control in *Burma* except that the control, which was rather loose up to the end of August, 1948, was tightened in the

latter part of the year on account of the unfavourable balance of payments. With effect from 1 September, 1948, remittances which could be made to the Sterling Area without the prior approval of the control authorities were reduced from Rs. 1,350/- to Rs. 500/-. With effect from November, 1948, the control was further tightened and remittances of whatever amount without the prior approval of the control authorities were disallowed.

As a result of the progress of inflation in China, the official rate of exchange was consistently unrealistic. This resulted in smuggling of exports and in free market operations. A system of Exchange Surrender Certificates was introduced in May, 1948 to encourage exports through official channels. These certificates were issued to exporters surrendering foreign exchange who could sell them to approved importers at a premium. This made the sale of foreign exchange conform more to the market rate than to the official rate. Besides, the holders of these certificates were saved from loss resulting from a fall in the value of the Chinese currency during the period in which they held them. The system was suspended when the "currency reform" was introduced on 19 August, 1948, but was re-introduced on 22 November, 1948.

The system of exchange control in Hongkong was the same as was in force in the United Kingdom, but in view of the fact that Hongkong is mainly an entrepot centre, considerable discretion was allowed to the local authorities in the administration of the control. The discretionary powers were interpreted quite liberally and only a small percentage of the foreign exchange proceeds of a few selected exports were collected, the balance being left with the traders. However, in order to prevent sterling area produce from passing through Hongkong en route to hard currency areas without the surrender of the exchange proceeds to the sterling area pool, re-exporters of sterling area goods from Hongkong had to surrender 100 per cent of the foreign exchange proceeds.

The comparative freedom from exchange control enjoyed by the Hongkong traders, and the existence of a free market in foreign exchange, led to certain developments which were not looked upon with favour by the authorities. For example, considerable quantities of merchandise coming from sterling area countries could be re-exported to soft currency destinations which, but for the facilities provided by Hongkong, would in many cases have been directed to hard currency areas. Besides, the unofficial rate of exchange between sterling and the U.S. dollar was more favourable to sterling in Hongkong than in such centres as New York, Zurich, Antwerp, Amsterdam and Paris. Thus it paid a dealer to convert sterling into U.S. dollars at

Hongkong and reconvert the dollars into sterling in other markets. As a remedial measure, new exchange regulations were issued in 1948 the main features of which were as follows: (1) Monetary transactions between the United Kingdom and Hongkong were (with a few exceptions) made subject to licence. This resulted in a considerable reduction in the U.S. dollar transactions in the Hongkong free market. (2) The proceeds from the export of goods which were not financed in U.S. dollars and which were destined to countries other than the Sterling Area were (with a few exceptions) to be surrendered.

The system of exchange control in Japan is unique. There was what is called a "military rate of exchange" having an extremely limited scope. Dollars could be converted into yen at this rate (which remained at 270 yen to one U.S. dollar since May, 1948) but yen could not be reconverted into dollars. Such conversion could not be used, however, for the export of commodities. For purposes of international merchandise trade there was no single or fixed rate of exchange between yen and dollar or any other currency. SCAP received all payments from foreign dealers for exports and made all payments to them for imports in U.S. dollars or other appropriate currency. The domestic purchaser or seller made or received payment, as the case might be, in yen. For this purpose the ratio between yen and the foreign currency was different for different types of imports or exports. The ratio approved by SCAP for any particular type of transaction was an important factor on which the success of negotiations between the domestic and the foreign dealers depended, for this ratio determined how much the local dealer had to pay in the case of imports or to receive in the case of exports. This made foreign trade on private account more cumbersome and complicated than it would have been otherwise. But it was inevitable, for, as a result of the isolation of the Japanese economy for more than a decade, the internal cost-price structure was not in harmony with the rest of the world. It had been further distorted by the fact that in the case of many industries, in which the output is abnormally low, the unit costs are extremely high.

The Philippines has a favourable balance of payments, thanks to heavy disbursements made by the United States Government for various purposes. It, therefore, has large dollar resources. The country could afford to have an unfavourable balance on current trade account, and the imposition of exchange control was not considered necessary. In December, 1948, however, in order to conserve foreign exchange resources for the economic development of the country, an import control was introduced to restrict the import of luxury goods and of articles considered non-essential.

In 1946 there was great disparity between the official and the free market rates of exchange in Siam, the baht being very much over-valued at the official rate. The obligation to sell foreign exchange proceeds to the Bank of Siam at the official rate encouraged smuggling of export goods and discouraged their export through normal channels. In order to remedy the situation the foreign exchange and trade regulations were considerably modified from time to time during 1946. Some of the important features of these modifications were as follows: The obligation to sell foreign exchange proceeds to the Bank of Siam at the official rates was abolished except for rice, tin, teak, rubber and cement. 100 per cent of the proceeds in the case of rice and cement, 50 per cent in the case of tin and teak, and 20 to 25 per cent in the case of rubber were to be surrendered at the official rates. Foreign exchange could be purchased from the Bank of Siam at the official rates for the import of certain priority goods. Authorized banks were allowed to buy, sell and remit foreign exchange. The existence of a free market was thus officially recognized. During 1947 and 1948 the exchange control was exercised more or less on the same lines as in 1946. In March, 1948 the priority system of granting foreign exchange at the official rates was abolished. Since then exchange can be purchased at that rate only for the import of fuel oils and lubricants, for educational purposes, for the requirements of public health bodies and for remittances to non-resident shareholders of the dividends of public utility companies registered in Siam. The export of teak was freed from exchange control. The existing arrangements have permitted foreign trade to remain at a reasonably high level and at the same time have enabled the Government to earn a large revenue by the purchase, at the official rate, of a part of the foreign exchange acquired.

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BANKING IN THE FAR EAST

(1) Banking Structure

The modern banking systems of many countries of the Far East are as yet in early stages of development. They are dominated by commercial banks, and specialisation of functions has not gone very far. Agricultural credit institutions, such as co-operative societies, occupy a comparatively unimportant position, and the credit facilities provided by them are not adequate. This is significant in view of the predominantly agricultural character of the economy of the region. Special institutions for industrial finance are practically non-existent, although in some countries they are springing up under government auspices. The region has to depend to a great extent on the services supplied by foreign banks.

Before the war the banking system of *Burma* consisted of the Reserve Bank of India and the branches of foreign banks. The main business of the latter was the financing of foreign trade. The year 1948 witnessed some important changes resulting in the greater participation of the Burmese in the banking business of the country. In February, 1948 the Union Bank of Burma was established to replace the Reserve Bank of India as the central bank of the country. The Burmese National Bank, a private bank owned by the Burmese, was also opened in 1948. At the end of the year there were 20 registered banks as against 13 at the beginning of 1946. Most of these banks were, however, branches of foreign banks.

The banking system of *China* consists of the four leading government banks—the Central Bank of China, the Bank of China, the Bank of Communications and the Farmers' Bank of China—and the Central Trust of China, the Postal Remittances and Savings Bank, the indigenous banks and the foreign banks. Before the war there was no effective central control over the banking system nor was there any specialisation of functions. The foreign banks and the indigenous private banks occupied an important position in the system. During and since the war there were, however, certain important changes. The government banks assumed an overwhelmingly important position and their deposits rose from 59 per cent of the total deposits of all banks (excluding foreign banks) at the end of 1936 to 92 per cent at the end of 1946. The relative importance of foreign banks greatly declined. Functional specialisation of the four government banks was decided upon in July, 1942. The right of note issue was centralized in the Central Bank of China. The Bank of China was to specialize in foreign trade finance, the Bank of Communications in industrial finance, and the Farmers' Bank of China in rural finance. The Central Bank of China has emerged as the most powerful financial institution in the country, exercising unified control over the banking system, including the other three government banks. There was a phenomenal increase in the total number of bank offices which rose from 2,065 in 1942 to 5,859 in 1947. This does not, however, represent a healthy expansion, for most of the new banks were a mushroom growth. The financial power of the banks was greatly reduced. Deflated by the Shanghai wholesale price index, the total deposits of government banks in 1947 amounted to only 10 per cent of what they were in 1937. This was a natural consequence of inflationary conditions under which people preferred to keep their wealth in the form of goods rather than bank deposits.

The banking system of *Hongkong* comprised 143 registered banks in 1948, 23 of which were authorised to deal in foreign exchange. It is dominated by

British and foreign banks. Besides, there are a number of small Chinese exchange shops which provide some banking facilities but which cannot be regarded as banks in the normally accepted meaning of the term. Although there is no central bank, administrative control is exercised by the Government in accordance with the Banking Ordinance promulgated in 1948.

The banking system of *Indochina* consists of the Bank of Indochina and other banks. The former is not a central bank. It is subject to control by the Government which owns one-fifth of its capital stock. The introduction of the new currency system will result in a fundamental change in the character of this institution. It will cease to be a bank of issue.

The banking system of *Indonesia* consists of the Bank of Java, the Popular Credit Bank and other banks. The Bank of Java is both a bank of issue and a commercial bank.

The banking system of the *Federation of Malaya and Singapore* consists of banks which are mostly branches of British banks. There is no central bank nor a clearing house.

The banking system of the *Philippines* consists of the newly-formed Central Bank of the Philippines, the Rehabilitation Finance Corporation which has absorbed the former Agricultural and Industrial Bank, the Philippine National Bank, the indigenous joint stock bank and the foreign banks. The Rehabilitation Finance Corporation and the Philippine National Bank are government institutions and occupy a predominant position in the system. The foreign banks also play an important role. Most of the banks are concentrated in Manila, and banking facilities in the provinces are inadequate.

The banking system of *Siam* consists of the Bank of Siam, which is the central of the country, the indigenous joint stock banks and the foreign banks. The total number of bank offices in Siam was 48 in 1948 as against 46 in 1947 and 19 in 1942. In 1947 and 1948, 50 per cent of the bank offices were located in Bangkok alone. The number of foreign banks increased from 7 in 1941 to 9 in 1947. Thus the bulk of the expansion of bank offices represents greater participation of the Siamese in the banking business of the country as compared with prewar.

The banking system of *Japan* consists of the Bank of Japan as the central bank of the country, the ordinary joint stock banks including the eight big banks, the special banks, agricultural credit co-operatives, urban credit co-operatives, the Central Bank for Agriculture and Forestry, the Reconstruction Finance Bank, the Postal Saving and the Postal Transfer Saving Bank, etc. It is very well organised as compared with the banking systems of other countries in the region and is characterised by a considerable degree of specialisation of functions.

(2) Central Banking

China, *Japan* and *Siam* were already provided with central banks. *Burma* and the *Philippines* established their central banks in 1948. There is a marked tendency for greater governmental control over the central banks and for increasing the powers of the latter over their respective banking systems.

The Union Bank of *Burma* was inaugurated on 3 February, 1948. It performs the usual central banking functions with the exception of note issue. It is a bankers' bank and also banker to the Government. It is authorised to buy, sell and rediscount bills, to make loans and advances to approved bodies and institutions on proper security, to issue demand drafts, to perform transactions in gold or bullion, foreign exchange and securities, and to act as the Government's agent for exchange control. It is a State bank, the Government owning the entire capital. It is expected to promote indigenous banking and secure the development of a healthy money market in the country.

The powers of the Central Bank of *China* have been greatly increased as a result of the abolition, on 30 October, 1948, of the Joint Board of the Four Government Banks, whose functions were taken over partly by the Central Bank and partly by the Ministry of Finance. The Board was formed in September, 1939, and was entrusted with the task of carrying out the wartime financial and economic policies of the Government. In September, 1942, the Central Trust of China and the Postal Remittances and Savings Bank were also put under its direction and supervision. It became a very powerful institution during the war. Its main functions were the adjustment of the note issue among the four banks and the joint granting of loans and discounts to government industries as well as private business concerns. With the suspension of the note issuing power of the other three government banks in July, 1942, the Central Bank of China began to hold a predominant position in the supply of money and credit, and in the course of time, the other government banks were practically reduced to the status of its subsidiaries. The abolition of the Joint Board formally confirmed this fact.

The Central Bank of the *Philippines* was inaugurated on 3 January 1949. It has the sole right of note-issue and has the right to discount paper, hold the balances of other banks, purchase and sell securities, act as a banker to the Government and manage the public debt.

(3) Commercial Banking

Commercial banking has made considerable progress during recent years, at least in some Far Eastern countries. Bank deposits have registered an increase. The increase is not only apparent but real, that is, after allowing for the increase in the note issue. The percentage of bank deposits to note

issue increased in the Philippines and in Japan. It remained constant in Siam. An examination of the clearing house returns also indicates an appreciable improvement in banking business, average monthly bank clearings increasing in Hongkong, Siam and Japan.

The tendency for liquidity preference appears to have been arrested, at least in certain countries. The increase in the percentage of demand deposits to total deposits was negligible in the Philippines and Japan. It fell in the case of Siam. In some countries of the region, particularly in the Philippines and Siam, the banks have to keep a fairly high proportion of their resources in liquid form. This is necessary in economies where the banking habit is not well developed. Advances and bills discounted have registered an increase in several countries. The percentage of advances and bills discounted to total deposits increased in the Philippines, Siam, and Japan. Investment in securities shows a tendency to decline in some countries. This is because of the availability of more profitable avenues of employment of funds, such as loans, advances, etc.

An increase in bank deposits and bank clearings, a halt in the tendency for liquidity preference, and the expansion of loans and advances by the banks, are all indicative of a revival of business confidence and of a general improvement in conditions of trade and industry.

(4) Agricultural Finance

Agricultural finance presents many difficult problems. On account of small-scale farming, the borrowers are numerous though the individual loans are not large. This necessitates the handling of a large number of small loans which adds to their cost. Most of the agriculturists have not got any acceptable security to offer, and banks, with their offices in towns, cannot be expected to have adequate knowledge of the financial status and credit-worthiness of borrowers living in remote and distant villages. Thus the ordinary banks are practically ruled out as a source of agricultural finance. Co-operative credit is the obvious solution. Most Far Eastern countries have tried to develop the co-operative movement with varying degrees of success. The main cause of the slow rate of progress appears to be the low percentage of literacy amongst the cultivators and their inability to appreciate the benefits that can be derived from co-operation. The village money-lender, who frequently charges exorbitant rates of interest, continues to be the main source of rural finance. His utility as a supplier of credit could be greatly increased if he could be made a part of the banking system and thus brought under central control.

In Burma the co-operative societies and the money-lenders are the main sources of agricultural credit. In 1941 there were 2,051 co-operative societies (including 1,599 agricultural credit societies) having a membership of 82,000 and a working capital of Rs.

14 million. The movement was completely disorganized during the Japanese occupation. After liberation the Government found it necessary to finance the cultivators by making direct loans to them under its Agricultural Credit Scheme, which was operated by the Financial Commissioner. Efforts were, however, made to revive the old societies and to form new ones. These have met with considerable success and, by the end of July, 1948, there were 2,437 agricultural credit and marketing societies and 188 fisheries societies. A sum of Rs. 7.5 million was allotted for making advances to agricultural credit and marketing societies for 1948. Out of this, loans worth Rs. 4.5 million had been issued by the end of October, 1948.

In China, the Farmers' Bank was entrusted with the provision of finance for agriculture. In December, 1946 the Central Co-operative Bank was also established. The greater part of loans was advanced for financing the distribution and storage of special farm products such as cotton, silk, tobacco, etc., agricultural production and land improvement.

Agriculture plays a very minor role in the economies of Hongkong and Singapore, and there are no specialized institutions for the provision of agricultural finance. The co-operative societies in Singapore are mostly for non-agricultural purposes. At the end of 1947 there were 36 societies having a membership of 13,300 and a working capital of M\$1.8 million. Each society has to rely on its own resources and receives no financial assistance from the Government or any other source.

In Indochina, agricultural credit is provided by the Chinese money-lenders and "chettys". The Indochina branch of the Credit Populaire has also resumed its activities which were slowed down by events in 1945-46 and has extended them to co-operatives and small industries.

In Indonesia the General Popular Credit Bank is the principal source of agricultural finance. It was established in 1934. In 1941 it had 108 local offices and 1,800 "field workers". There were 750,000 outstanding loans, representing more than 32 million guilders, about 80 per cent of which were unsecured. The prewar offices are reported to be resuming their activities in the areas under Netherlands control. The method of granting credits is unique. Applications for loans are not examined from behind a desk in the bank's offices, but the credit requirements of the applicants are investigated on the spot in the villages or at "sessions" held at various places from time to time. The bank thus reaches those who need credit in their own localities and is thus able to supplant the usurer. Loans are granted both for production and consumption. During 1947 it granted loans worth 12 million guilders. In the first three months of 1948 its loans amounted to 7 million guilders. The Bank also controls and assists the municipal credit institutions, called village banks,

which meet the credit requirements of the rural areas. This village credit system comprises about 12,900 such organisations granting loans in paddy and in small sums of money for very short periods.

In the Philippines, the Rehabilitation Finance Corporation, which absorbed the former Agricultural and Industrial Bank, is the most important institution for the provision of finance for agriculture. It was opened for business in January, 1947, and up to 26 May, 1947, it had advanced P4 million for agriculture out of its total advances of P33.3 million. The small farmers have to depend for their credit requirements on the usurers, large landowners, and buyers and processors of agricultural products. The Joint Philippine-American Finance Commission recommended a programme of small loans to farmers based on individual farm production plans worked out jointly by the borrower and competent agricultural advisers and followed up by supervision and advice to ensure proper utilisation of the loans.

In Japan the Agricultural Credit Cooperatives and the Central Bank for Agriculture and Forestry specialize in agricultural finance. Agricultural loans are also granted by other banks, trust companies, etc. In June, 1948, loans for agriculture, forestry, fisheries, etc., made by the various important financial institutions, amounted to Y. 26,692 million as against Y. 14,314 million in June, 1947.

(5) Industrial Finance

The banking systems of most Far Eastern countries lack specialised institutions for the provision of finance for industry. This is so probably because the private entrepreneur finds commercial banking to be more profitable than industrial banking. Besides, the element of risk in the case of short-term loans against merchandise is much smaller than in the case of long-term loans to industry. Want of credit facilities for industry is one of the causes of the slow pace of industrialisation in the region. It seems, however, that the various aspects of the problem of industrial finance are being recognised, and either special institutions are being set up or other arrangements are being made under government auspices for meeting the credit requirements of industry.

In Burma there are no specialised financial institutions for industry, whose credit needs are therefore, met by the ordinary banks. In the case of Burma, advances for the processing and manufacturing of food and raw materials amounted to Rs. 20 million out of Rs. 73 million of total bank advances in July, 1948.

In China, the Bank of Communications was expected to specialise in industrial finance. As a matter of fact, the Bank of China also, in addition to its banking business, has been providing credit facilities for industry. Information about advances to industry in recent years is not available, but in view of the certainty of loss in

making long-term advances during a period of hyper-inflation, the financial assistance received by industry from the banking system has been small, except in the case of government industries financed by government banks.

There are no special institutions for industry in *Hongkong, Malaya and Siam*.

In *Indonesia* there is no important institution specialising in the provision of industrial finance. However, the Government made other arrangements for meeting the postwar requirements of industry. Licences were issued to individual enterprises unblocking their frozen prewar bank balances and authorizing banks to make funds available to them, not exceeding stipulated amounts with or without government guarantee. Under this system, licences were issued to industrial enterprises to the amount of 11.5 million guilders in 1946 and 14.3 million guilders in 1947. In so far as possible, allotments of foreign exchange were also granted for the import of essential equipment or raw materials. The Popular Credit Bank also granted credits amounting to 1 million guilders to industry and trade during 1947.

In the *Philippines*, the Rehabilitation Finance Corporation is a special institution for financing the rehabilitation of the economy. It provides finance for industry. From January, 1947 to October, 1948 its loans aggregated 165 million pesos. It has been decided recently to float a 50 million pesos bond issue, in addition to a similar amount issued in 1947, with a view to increasing the Corporation's capital to 300 million pesos.

In *Japan*, the Reconstruction Finance Bank is the most important institution for reconstruction finance, including finance for industry. At the end of October, 1948, it had a paid up capital (paid by the Government) of Y. 25,000 million and it had issued bonds worth Y. 72,900 million. Its loans amounted to Y. 97,359 million as against Y. 83,688 million at the end of October, 1947, representing an increase of about 190 per cent in the course of twelve months. The loans include the amount lent for covering the deficits of certain enterprises. Loans advanced to industry by other banks amounted to Y. 57,000 million at the end of October, 1948 as against Y. 12,000 million at the end of October, 1947.

(6) Security Markets

Stock exchanges play an important role in mobilizing the community's savings. They impart "liquidity" and "price continuity" to stocks and shares and thus encourage the growth of the investment habit. In the absence of central planning, they determine, through their price mechanism, the direction of the community's investments. By dealing in government securities they help Governments in raising funds, and facilitate the "open market operations" of central banks. They encourage branch banking as they provide a collateral against which advances can be made without personal

knowledge of the borrower's character and other affairs. Stock exchange activity, subject to certain qualifications, is an indicator of the general economic activity in a country.

Many countries of the Far East have no stock exchanges and cannot, therefore, avail themselves of the facilities provided by them. In fact, stock exchanges come into being only after a certain stage of economic development. They are markets for stocks, shares and other securities which become available when a country has achieved a certain measure of industrialisation or when other corporate activity has been well developed. Thus lack of stock exchanges in some countries of the region only indicates the under-developed character of their economies. However, the question as to whether they could be usefully set up in some countries requires examination.

Stock exchange facilities are available in several countries of the region. In China, since the war, there are two stock exchanges, in *Shanghai* and *Tientsin*. *Shanghai Stock Exchange* is by far the more important. It was organized by an order of the Executive Yuan in May, 1946 and was opened for business on 16 September, 1946. It is privately owned and managed and is the only exchange dealing in stocks and bonds in *Shanghai*. Government bonds and stocks issued by foreign firms in China are not listed on it. At the end of 1947 it had 245 licensed brokers.

In *Hongkong* there is one stock exchange comprising about 60 members. In Japan the *Tokyo Stock Exchange* is the most important security market in the country.

Stock exchange speculation has been the subject of a good deal of criticism all over the world. Within certain limits speculation is not only unobjectionable but eminently desirable, as it makes for price continuity and provides liquidity and marketability to securities. Speculative purchases, when the supply temporarily exceeds demand, and sales when demand exceeds supply, bring about a smooth transition of prices and prevent violent fluctuations. But this is so only when speculation is based on the anticipations of intelligent and well-informed speculators. The case is different when the uninformed enter the field in a spirit of sheer gambling. Again, the speculators may try to manipulate the market in order to create such conditions of demand and supply as to make the price different from what it would have been in the normal course of events. It is such speculative practices as these which are undesirable.

The two stock exchanges in *China* were officially closed as a part of the currency reform measures of 19 August, 1948. Before that date, however, stock exchange activity in *China* fully reflected some of the important economic developments that were taking place in the country. The flight from currency greatly increased the demand for stocks and shares, and raised their prices to great heights. Subject to this general tendency, however, the prices of Chinese industrial shares fluctuated

with the fortunes of the various industrial concerns. Their prices went down when the earning prospects were small on account of the lack of raw materials and high cost of labour, and went up when conditions became more favourable on account of the supervision of the commodity markets, inspection of warehouses and suppression of trading in foreign securities. The prices of bank shares were not subject to as great fluctuations because their earning prospects were not dependent on the supply of raw materials. Foreign securities were very much in demand till 12 May, 1948, when the Central Bank of China issued a directive that foreign securities could not be exported without Government permission and that their sale proceeds and dividends must be surrendered to the Government.

The values of stocks and shares in *Hongkong* have risen greatly since 1946. This has been due, partly to the generally prosperous conditions which have existed in *Hongkong* and which have been reflected in the profits of local companies, and partly to a fall in the value of money. The market remained dull during 1948. This has been ascribed to the uncertain political conditions prevailing in *China* which have resulted in the public's preference for cash over investment. The business handled by the Stock Exchange during 1948 amounted to HK\$160 million. Forward purchasing and selling were prohibited to reduce speculation to a minimum.

In *Singapore* the share market was dull at the close of 1948. This was so in spite of the fact that expectations of production in the case of a majority of mines, and of a rise in the price of tin, had been realized. The deterioration in confidence appears to be due to political factors.

The share market in the *Philippines* remained practically unaffected by the fall in general prices in 1948. This was probably due to the predominance of mining shares which are a type of security that can resist the tendency to falling prices.

The prices of stocks and shares in *Japan* showed an upward tendency during the months of January and February, 1948. This was partly due to a shortage of stock and partly to a recurrence of lack of confidence in the currency, resulting in a preference for shares over cash. Later in the year, prices showed a tendency to sag, and the market was extremely dull in September and October. This was ascribed to an over-supply of stock. During the last two months of 1948, however, the share market was again very buoyant. This has been attributed to a fall in black market prices, which made investors interested in shares in preference to commodities. As there was neither a shortage of marketable stock nor loss of faith in the currency, a rise in the prices of shares may be indicative of revival of business confidence. The general index of stock exchange securities rose from 100 in December, 1947 to 289 in December, 1948.

(7) Banking Legislation

Legislation vitally affecting the working of the banking systems in a number of countries of the region was enacted in the course of 1948. Some of the changes are structural in character as they have resulted in greatly increasing the powers of the central banks and in bringing the private banks, even in their day-to-day working, more or less under the complete administrative control of either the central bank or the Government.

In China the Banking Law of September, 1947, replaced the Banking Law of 1931 and the Savings Bank Law of 1934. It comprised detailed provisions governing different kinds of banks, e.g., commercial banks, savings banks, industrial banks, trust companies, native banks and foreign banks. The actual significance of this law, however, was over-shadowed by the numerous emergency regulations, which were enforced as exchange control or anti-inflationary measures. Balances of all government institutions, which might previously be deposited with government banks, were to be transferred to the Central Bank. As part of the currency reform measures in August, 1948, new regulations were made affecting commercial banks and trust companies, but these became ineffective with the subsequent collapse of the currency.

A Banking Ordinance was introduced in Hongkong in 1948. Until then there was no banking legislation. The Ordinance provides that no banking business shall be conducted in the Colony except by a company licensed for the purpose. The grant of a licence may be refused without assigning any reasons. The Government has been given wide powers for the control and regulation of banking and has been authorized to order a licensed bank to refrain from carrying on banking business. The Ordinance was considered necessary because of the establishment of a large number of banks after the war, many of which possessed inadequate capital or carried on only speculative business which was often in contravention of exchange and trade regulations in force in the Colony.

After its liberation from Japanese occupation, Hongkong was faced with the question of pre-occupation debts which had been repaid during the occupation period. The problem was a very complicated one, for in some cases the debts had been repaid in Hongkong dollars, in others in occupation currency. The latter had had an official value in terms of Hongkong dollars but its real purchasing power had not been constant and had declined rapidly with the passage of time. In cases where repayment had been made in occupation currency at the official rate of exchange, an important factor requiring consideration was the actual purchasing power of the occupation currency at the time of repayment. Again, in some cases repayment had been made to the creditors and in others to liquidators appointed by the occupation authorities. A moratorium on pre-occupation debts was announced soon after liberation and it remained in force for over three years. As a result

ECONOMIC TRENDS IN SOUTH KOREA**1. AGRICULTURE**

Three-Year Agricultural Program:—The Ministry of Agriculture and Forestry is pushing a program designed to increase agricultural production over a period of three years. The program is aimed at raising agricultural production in the country to 25,973,300 Suk of rice and other grains in the first year (1949), 30,275,100 Suk in the second year and 32,199,700 Suk in the last year.

Land Reform Program: The land reform bill was passed by the National Assembly on April 27. The most noteworthy points in the new act are the amount of compensation to land owners for the land to be purchased by the government and the amount of redemption for the land to be distributed. The Agriculture and Forestry Ministry plan set the compensation at 150% of the normal annual production of the land, and the redemption at 120% of production. The government plan sets both compensation and redemption at 200% and the Industrial Committee of the National Assembly set both at 300%. The National Assembly finally set compensation at 150% and redemption at 125%. The land to be distributed aggregates

1,024,000 Chungbo, including 755,000 Chungbo to be purchased and 269,000 Chungbo of vested land. The number of farming families to receive land amounts to 1,535,000.

Prospect of Summer Crops: Distribution of fertilizer was somewhat late and insufficient applications were made to barley and wheat this year. However, bumper crops are forecast because of unusually warm weather last winter and sufficient rainfall this spring. While detailed reports have yet to come from various provinces, the Agriculture and Forestry Ministry predicts that the crops will exceed 5,200,000 Suk of barley and wheat.

2. FORESTRY

Afforestation: The Agriculture and Forestry Ministry has announced a 10-year afforestation program. The first phase of the plan was put into practice this spring. Afforestation projects were launched this spring on 105,484 Chungbo; the number of trees planted totalled 217,783,345. This land include 89,000 Chungbo of privately-owned forests, where 178,000,000 trees were planted; 4,323 Chungbo of State forests, 9,098,-845 trees planted; 857 Chungbo of vested forests, 8,359,500 trees planted, and 11,304 Chungbo of reclaimed forests, where 22,324,000 trees were planted.

of its operation, debts, with a few exceptions, could not be enforced by law, dealings in securities required the previous permission of the Finance Controller, those in land being also generally restricted. The moratorium was lifted in 1948 by a proclamation issued under the Debtor and Creditor (Occupation Period) Ordinance, the main features of which are as follows: All payments in respect of pre-occupation debts made during the occupation period have been validated wholly where such payment was made in Hongkong dollars, even to the enemy, and partly, according to a revaluation scale, where payment was made to a liquidator in occupation currency. Interest on such debts is limited to 4 per cent per annum. There is provision for relief in special circumstances. Securities given to creditors and released by the occupation authorities without legal discharge of the debt, remain in the original charge and must be reinstated or replaced. From the very nature of the problem, there were bound to be cases of hardship. The Ordinance, therefore, has not satisfied all the parties affected. It has, however, removed an element of uncertainty from the economy of the Colony.

Molaya was faced with a similar problem. There the moratorium still continues, for it has not yet been possible to enact a law satisfactory to the various conflicting interests.

The Philippines Congress in May, 1948 passed a Bill to continue until eight years from the date of payment of war damages by the War Damage Commission, the debt moratorium originally declared on 8 November, 1944. The law applies to all debts and

other monetary obligations incurred prior to 8 December, 1941 which are still outstanding, but does not prejudice any voluntary settlements agreed upon between debtor and creditor. Interest charges from 8 December, 1941 to 26 February, 1945 on all such debts are waived. Thereafter interest at the rate of 4 per cent per annum is to be charged, unless the obligation itself provides a lower rate. A debtor wanting to enjoy the benefits of the Act must show proper filing of his war damage claim with the Philippine War Damage Commission in Manila. A general Banking Act was passed in the Philippines in July, 1948. It harmonizes the basic banking legislation with the Central Bank Act. It gives preference to Philippine banks over foreign banks, encourages banks to invest in government securities and broadens the field of banking activity. No foreign building and loan associations are to be permitted to transact any business, and branches of foreign banks are required to obtain a licence for carrying on their business. 60 per cent of the capital stock of banking institutions established in future must be owned by Philippine nationals who must also constitute at least two-thirds of the members of the board of directors.

The main objectives of the banking legislation described above may be briefly stated as an increase in the powers of the central banks to enable them to enforce credit policies, control of the private banks to ensure their working on sound lines in the interests of the depositors and of the country, and a solution of the problem of pre-occupation debts.

3. FISHERY

Fishing Conditions: Fishing operations in March were livelier than in February. Sharks, especially, were caught in large quantities, resulting in a 10% increase in commission sales by provincial fishery associations. Fishing operations in general, however, have not been so successful this year as last. Comparative inactivity in the fishing industry may be due partially to weather conditions but largely to lack of funds.

4. INDUSTRY

Commodity Supply Program: The Office of Planning has worked out a program designed to adjust the demand and supply of important materials in a period of five years. The plan was approved by the State Council on April 15. Constituting the first comprehensive industrial rehabilitation program introduced in Korea, it is aimed at attaining self-sufficiency for important materials and thereby lay the foundation on which Korea's economic independence could be built up. Under the Japanese colonial government, primitive industries were predominant in Korea and development of modern industries was ignored. Especially conspicuous was the inadequacy of heavy industries. The five-year plan will play an important part in the development of heavy and chemical industries in the country, which is moving from the stage of 100% emphasis on agriculture to that of devoting attention to industry as well.

Power Supply: Power production during March averaged 78,278 kilowatts, including 30,294 kilowatts by hydroelectric plants and 47,984 kilowatts by thermal plants. Hydro-electric power production increased considerably due to the rise in the water level and the power situation is improving gradually. Present production, however, meets only about half of the full demand in the country, especially in relation to industrial rehabilitation. The power supply will constitute a serious bottleneck in the industrial development unless some remedial measures are worked out. In order to increase power production, the government is planning to repair existing facilities and increase the productive power by insuring sufficient fuel supplies. Water, steam and oil will be used jointly in developing power production.

Paper Production and Imports: The highest records of paper production in Korea before liberation were 842,000 pounds of machine-made paper and 5,500,000 pounds of hand-made paper in a year, while those after liberation were 8,000,000 pounds of machine-made paper and 400,000 pounds of hand-made paper. The government set up a domestic paper production program calling for manufacture of 44,090,000 pounds of machine-made paper, 1,250,000 pounds of cardboard and 740,000 pounds of hand-made paper. The plan has been worked out on the basis of the paper needs of the country in 1948, which were estimated at 66,130,000 pounds of machine-made

paper, 1,500,000 of cardboard and 740,000 of hand-made paper. During February 1949, 17 major paper mills in the country produced 830,000 pounds of paper.

The paper production after liberation amounts to only about one tenth of the pre-liberation production. One reason for such a poor performance in the post-liberation period is the encroachment of imported paper upon the domestic market. Paper imported in 1948 totalled 12,910,000 pounds. In order to encourage recovery of South Korea's paper industry, it is necessary to control imports of types of paper that can be produced in the country.

Opposition to Import of Japanese Raw Silk: Both the Agriculture and Forestry Ministry and the Silk Industry Association are strongly opposing the projected import of 50,000 Kwan of Japanese raw silk which is part of the plan to produce 5,000,000 yards of silk fabric for export from Korea. Main reasons for the opposition are; (1) it is necessary to protect and foster the native silk yarn industry; (2) imported raw silk will affect the market prices of native silk yarn and textiles; (3) Korea is likely to become the market of Japanese products.

5. MINING

Coal Transportation: Transportation is a major obstacle in the development of the coal industry. During 1948, the average monthly accumulations of coal at different mines were as follows: 78,312 tons at Samchuk; 34,008 tons at Hwasoon; 32,125 at Tanyang; 14,909 at Unsung; 7,854 at Munkyong; 19,489 at Ulsan; and 15,602 tons at Kilwon and Yongil. The coal held up at railway stations during the period averaged 25,254 tons per month at Samchuk; 8,354 tons at Hwasoon; 2,135 at Tanyang; 2,139 at Unsung; 701 at Munkyong; 1,403 at Ulsan; 2,979 tons at Kilwon and Yongil. This figures clearly show the lack of transportation facilities between mines and railway stations. In order to facilitate such transportation, the government is planning to import 100 motor trucks. Plans also are underway to build special coal transportation railways reaching Yung-wul, Samchuk and Chyunchon at an estimated cost of 8 billion won.

6. FOREIGN TRADE

The excessively adverse balance of Korea's foreign trade has been serious to the stability of national finances. During March, with the arrival of ECA aid materials, South Korea's foreign trade showed gradual recovery. Exports during the month totalled 542,000,000 won and imports amounted to 603,000,000 won, resulting in an adverse balance of 60,000,000 won. The exports included 418,000,000 won of marine products, which represented over 80% of the total exports. The commodity supply program is going to be put into force while production materials are expected to arrive in the country under the ECA aid program. It is hoped that the Korean-Japanese trade arrangement will be followed by other trade agreements with foreign countries. The government is arranging

to amend the customs act. All such movements tend to indicate that Korea's foreign trade is going to make real and sound progress. Major imported goods included (in won):—70,516,000 of newsprint, 91,976,000 of cotton yarn, 87,720,000 of tires, 44,985,000 of dyed cotton, 54,517,000 of caustic soda, 23,505,000 of dyestuffs and paint, 19,415,000 of raw rubber and others. Important exported goods include 372,369,000 won of cuttlefish, 31,813,000 of lead ores, 39,317,000 of yellow hides and 23,021,000 won of residual silk yarn. Trade with Hongkong accounted for over 75% of the total imports and a majority of the total exports. Recent trends in the Hongkong trade indicate a gradual increase in trade with Communist-controlled areas in China, North Korea and Manchuria, while the trade with South Korea tends to decline.

Principal development concerning Korea's foreign trade was the formal signing of the Korean-Japanese trade agreement, which was accompanied by a financial agreement and detailed plans of goods to be exported and imported. The trade agreement is effective for one year beginning on April 1 and the amount of trade is estimated at US\$80,000,000. Korea is to import about \$49,000,000 of goods, including essential industrial machines needed in the economic reconstruction of Korea. Export goods include marine and mineral products. An outstanding feature of the agreement is that trading finance will be based on the ECA aid fund inasmuch as Korea is unable to conduct normal trade without setting up a foreign exchange rate. The Korean-Japanese trade agreement illustrates the fact that international transactions, including foreign trade, that are not backed up by a foreign exchange system are lopsided, and such situation will not foster independent trade nor attract foreign capital.

7. BANKING

Deposits: The deposit balance of various banks as of the end of March, 1949, amounted to 44,500,000,000 won, an increase of 8,400,000,000 won over those in the previous month. The tendency of making excessive loans, apparent since the end of last year, now has been reversed and the previous trend of excessive deposits has been restored. The increases in deposits include 3,000,000,000 won of deposits by other banks in the Bank of Korea, deposits of about 500,000,000 won representing sale of civilian supplies and about 400,000,000 won from coal companies, and 3,000,000,000 won of government deposits in various banks. Choheung Bank and Mutual Aid Bank also absorbed considerable amount of ordinary deposits.

Loans: The balance of loans in various banks as of the end of March amounted to 34,400,000,000 won, a decrease of 3,500,000,000 won from those in the previous month. Main factor accounting for the decreased loans was the recovery of 1,800,000,000 won from the rice purchasing fund, 240,000,000 won from the cocoon collection fund

and 1,500,000,000 won from the advances granted to the Federation of Financial Association and the Food Supply Company. Inter-banks borrowings decreased by about 1,300,000,000 won from those in the previous month mainly due to repayments of the rice fund recovered. The inter-banks deposits increased about 2,700,000,000 won compared with previous month resulting from the return to the Bank of Korea of that portion of the rice fund which had not been released. The increase by about 1,500,000,000 won in the cash holdings of various banks resulted from increases in ordinary deposits, in addition to holdings of about 800,000,000 won of the recovered rice fund in cash by various banks.

Currency: Because of the increase in cash holdings of various banks as stated above and the decrease in the note issue by about 3,000,000,000 won, currency in circulation diminished substantially compared with the previous month. Commodity prices were subject to increased pressure but the stringent monetary situation affecting various enterprising organizations was aggravated. During April the Bank of Korea issued about 980,000,000 won including 140,000,000 won of the laver collection fund, about 300,000,000 won of ordinary payments and about 540,000,000 won of payments to the Treasury and payments in connection with the rice fund. The money withdrawn by the Bank of Korea during the month included about 1,000,000,000 won from the rice fund and about 2,960,000,000 won of payments by various banks and from other sources.

8. GOVERNMENT FINANCE

The Budget of the Government of the Korean Republic for the 1949-50 fiscal year, as passed by the National Assembly on April 30, contains the following main items:

Ordinary Account (In 1,000 won)

Presidential Office	26,987
National Assembly	284,299
Supreme Court	612,902
Premier's Office	10,648
Board of Audit	34,449
Inspection Commission	16,440
Civil Service Commission	28,216
General Affairs Dept.	330,199
Public Information Dept.	399,947
Office of Legislation	31,230
Office of Planning	6,024,567
Home Ministry	15,102,110
Foreign Affairs Ministry	309,645
Nation Defence Ministry	13,462,106
Finance Ministry	3,497,444
Justice Ministry	2,048,441
Education Ministry	4,964,336
Agriculture and Forestry Ministry	4,018,159
Commerce and Industry Ministry	4,164,376
Social Affairs Ministry	1,840,325
Anti-National Special Commission	115,660
Total	57,322,495

Special Account

Temporary Property Custody Office	2,545,734
Temporary Foreign Supply Office	96,300,002
Broadcasting Office	135,805
Monopoly Business	26,093,801
Vested Land	3,596,355
Traffic Works	21,992,395
Communications Works	3,093,793
Insurance Pensions	198,973
Total	153,956,862
Grand Total	211,279,357

Out of the total amount of 211,279,357,000 won, 90,000,000,000 won will be appropriated from other accounts and through the sale of aid materials handled by the Foreign Supply Office, but the remaining 101,200,000,000 won burden will be shouldered by the people. Assuming that the population of South Korea is about 20,000,000, the burden breaks down to 5,000 won for each person. Chairman Hong Sung Ha of the Finance and Economy Commission reported that the national income in 1949 will amount to 200,000,000,000 won. About half of the total national income will be paid to the government, with the result that the national economy may be subject to considerable pressure. However, few people will complain about the budget in view of the necessity for national construction and the current domestic and international situation. This program will be realized only at the sacrifice of investments which ordinarily would go into various enterprises, and at the expense of lowered civilian consumption.

Personnel expenses constituted an important item of expenditure. In compiling the budget, the government envisaged cutting down the government's salaried personnel from 134,195 in 1948 to 121,837 in 1949, but the number was whittled down to 116,684 in the final budget. This means a decrease of 13% compared with the payroll of the preceding year. The number of wage-earning personnel also has decreased and the final estimates of personnel expenses amount to 14,500,000,000 won. This shows an increase of about 50% over those in the preceding year, when personnel expenses for half a year amounted to 5,300,000,000 won. The increased budget will be reflected in better treatment of government personnel. The ratio of the personnel expense to the material expense in this year's budget is lower than that in last year's budget. It indicates the government's intention to control purchasing power.

Projected government expenditure for industry amounts to 12,000,000,000 won, or 12% of the total budget. Additional estimates to cover this particular section of the government finance will be presented to the National Assembly shortly. The operating fund of the Foreign Supply Office has been decreased from 9,000,000,000 won to 5,300,000,000 won.

In the field of revenue, income from taxes amounting to 10,900,000,000 won forms the most conspicuous item. The amount represents only 5% of the total national income. In view of the inflationary situation, the levies will have to be increased. The government is planning to enforce a taxation reform designed to solve the intricate problem. However, the tradition of placing incomes from government enterprises at the head of the revenue chart will have to be discontinued.

9. PRICES

During April, commodity prices in Seoul rose by 3.83% in wholesale and 1.57% in retail index figures. In the field of retail business, grains and foodstuffs prices were up due to decreased supplies and increased demands. Other retail prices remained low. As for wholesale prices, the general tendency was upward except for fertilizers, industrial materials and sundry goods. The rice price registered its highest level—17,400 won per 200 litres—as a result of hoarding and increased demands following announcement of the priority rationing regulations. Barley and wheat also were on the upward trend due to increased demands. The average index figures of grains jumped 10.63% in wholesale and 11.58% in retail from those in the previous month. Among foodstuffs, sugar, flour, dried fish and vegetables rose due to increased demands and decreased supplies. Japanese-style wine rose slightly but other kinds of spirits remained low. Textile materials showed signs of decreasing as foreign goods flooded the market for a while but the tendency was reversed due to the scarcity of stockpiles. Among textiles, cotton cloth rose slightly but serge and brocades were low. Concerning building materials, baulk was the only exception to the general upward tendency of prices. Among metallic goods, nails and copper remained stable but all others rose due to diminished stockpiles. Among different kinds of fuel, firewood declined because of seasonal decrease in demand while petroleum dropped as a result of being placed on ration. Briquettes rose slightly due to low stockpiles. Sulphuric acid rose slightly and alcohol dropped because of increased supplies. As for fertilizers, ammonium sulphate dropped due to increased imports, but other items remained stable. Foreign paper, rubber shoes, cotton and other items of sundry goods dropped slightly but leather shoes were up slightly. The average index figures of sundry goods were 2.36% lower in wholesale and 7.95% lower in retail compared with those in the previous month. During the month, the general trend of commodity prices in Seoul was continuously on the upward in consequence of the announcement of priority rationing and increased transport fares.

Economic Developments in Shanghai and Tientsin

SHANGHAI

General.—The first note of optimism was struck in Shanghai's strained business-labour relations with the announcement of new labour regulations effective August 19. Purpose of the regulations is to settle labour disputes taking into consideration practical conditions, strengthening of labour discipline, etc. Under these regulations management of businesses that have resumed operations are obligated to rehire workers laid off where the factory or firm closed down within 4 months of communist takeover. However, staff and workers who left under the following conditions may not demand reemployment: (1) employees discharged due to their own fault; (2) employees who left jobs for more than 2 months because of war; (3) employees who went through formal discharge steps; and (4) employees now working elsewhere. Of importance is the provision that workers may not band together so as to compel their re-employment by forcible entry into a factory. Despite the regulations, several employers remain pessimistic over labour dealings.

The first actual move of a business enterprise to the interior has started amid daily press reports of projected large scale movements.

Travellers' Exchange.—Regulations covering foreign exchange requirements of travellers going abroad were promulgated August 16. Payment for passage, luggage, etc., is defrayed out of foreign exchange deposited with the Bank of China for that purpose. For sundry expenses, travellers may carry a maximum of HK\$200 if destination is Hongkong; for other foreign destinations, the limit is US\$100 or its equivalent. Other than bank drafts, travellers' checks, and blank checks (*sic!*), for which Bank of China permits are required, no other foreign exchange may be carried out of the country.

Taxation.—Communist authorities ease effect of land tax by waiving payment of pre-1949 taxes; refund is to be made if these already paid. By mid-August collections had reached PBN 5 billion (approximately US\$2.2 million at prevailing official exchange rates). Total revenue from this source is expected to be 2½ times as much.

Insurance.—Effects of Nationalist plane raids is seen in communist-controlled insurance company rate of from 6 to 12 percent on goods shipped between communist-occupied areas. This is also apparent in war insurance for river and coastal seamen.

Fuel.—Authorities estimate that a gasoline saving of half million gallons a month has resulted from the lay-up of non-tax-paying cars.

Motion Pictures.—The state-owned Foreign Trade General Company is now the sole importer of motion pictures. All imported films are subject to censorship.

Foreign Trade.—A total of 1,164 importers and 1,350 exporters are now

licensed in Shanghai. Import licenses have been issued for the import of raw materials, chemicals, and pharmaceuticals from Hongkong. The chemical items include 250 drums of American caustic soda. Temporary regulations were announced on August 12 for simplifying the inspection of goods subject to commodity tax, with clearance for such goods to be handled by the Customs. All commodity tax rates remain the same. However, fines imposed by the Customs are to be 800 times prewar rates. The new authorities try to regain China's former Far Eastern trade, particularly that in cotton yarn and cloth. Latest barter deals are Shanghai cotton yarn for Taichow (Shansi Province) wheat and Chahar sheepskins for Shanghai overcoat leather.

Finance.—Foreign currency holders are now permitted to convert the equivalent of US\$50 over the counter. Bank deposits increased 150 percent to PBN 16 billion (approximately US\$7.1 million) in the first half of August. The daily loan interest rate dropped to 1.4 percent while the curb rate was down to 0.6 percent. Black market activity is almost nil. Rates at the close of August were:—United States dollar, PBN 2,250 (at par with the official rate); "Big head" silver dollar, PBN 2,000; and gold, per ounce, PBN 143,000. Gold cross rate was US\$63½.

Commodities.—Prices continue to decline in the face of light trading. Rice dropped to PBN 45,000 a picul by August 22, while on the same date the parity deposit unit was down to 760, a drop of 56 in a week. (The spread between wholesale prices — on which the parity deposit is calculated — and retail prices has been responsible for the decline in public confidence.)

TIENTSIN

General.—Floods in Hopei Province have inundated nearly 2 million acres involving 3 million inhabitants. River and canal waters in the Tientsin area still continue above flood warning levels. General business outlook is much improved with large foreign trade being carried on.

Industry.—On August 1, the Tientsin postal administration began extending operating credits against orders for future delivery. By August 15, a total of 24 loans had been extended to chemical plants and cloth factories totaling PBN 200 million (equivalent to about US\$75,000 at present official exchange rates).

Postal Service.—The Tientsin post office advised that movement of mail abroad through Tientsin has been arranged for in principle. Hongkong is now regularly connected with Tientsin (and indirectly with Shanghai).

Foreign Trade.—In July, the value of Tientsin declared exports to the United States totaled US\$1,705,355 of which 59 percent were made up of three items: bristles, \$547,491 or 32 percent; woollen floor coverings, \$242,391 or 14 percent; and dried egg products, \$226,824 or 13 percent. In com-

parison, declared exports from this city to the United States in April, May, and June were \$628,815, \$716,289, and \$1,560,624 respectively. (The total for these four months—US\$4,611,261—compares favourably with the figure of US\$4,949,314 given as the value of Tientsin declared exports to the United States in the first six months of 1939.)

Internal Trade.—It was reported in Mukden that in the period from April to July 1949, 17,860 tons of cereals were shipped from the Northeast (Manchuria) to Tientsin Peiping, and Tung-shan (the latter in Kiangsu Province).

Commodity Prices.—Despite the advance in the general price index and a higher official exchange rate, PBN 2,700 to US\$1, Tientsin prices are somewhat lower than those in Shanghai. For example, the price of rice in Tientsin on August 18 was PBN 340 a catty, equivalent to US 12.8 cents; on the same day rice was selling in Shanghai at PBN 500 a catty, equivalent to US 22.2 cents. On August 9, the Nankai University's Economic Research Institute reported the general commodity price index as PBN 2,994,291, an increase of 14.83 percent over the previous week.

Reports from Canton

Life in Canton is on the whole normal. The civil war front is coming nearer but there is as yet no clear indication of crucial developments on the northern Kwangtung border. Business men dread the extension of the war to their province but many merchants feel that if the fall of Kwangtung is inevitable it would be preferable to spare the people the ravages of military operations. A communist underground is active in Canton, many are opportunists who are now jobless and would try to swim with the 'red' tide, others are well indoctrinated and fanatic, while still others are just poor and believe that a change of the regime may elevate their position. Generally, however, the masses are disinterested in the progress of the war and curse both sides for their depredations and stubbornness.

The city of Canton is suffering under disrepair, now as ever since the start of the Japanese occupation in 1938. Very little new construction has been undertaken after the end of world war II and lack of maintenance is painfully evident at every street corner. Business is on an emergency schedule; nobody wishes to carry large stocks not only for fear of possible confiscations or military commandeering but also because of the international market trend which is downward. The spending power of the average people is extremely low and the middle classes have also to economise so severely that anything which is not of the essential category, such as foodstuffs and transport, is being done without. Under such conditions the business results of the majority of shops and trading firms can be imagined. The once flourishing entrepot trade of Canton has been

much reduced as a consequence of the extension of war operations and disruption of internal transportation.

Petty crime is getting very bold in a growingly impoverished community but the real danger to life and property comes from the pirates and brigands who infest almost every stretch of inland water and highway in Kwangtung. Lawlessness is ever more menacing. The authorities are confronted by well-armed and desperate crowds of professional bandits who have gained support from many ex-soldiers. If the communists enter the province and take over they will have a first-class job on their hands to clear the cities and the countryside from these pests.

Financially, the situation is not discouraging; with the circulation of the Hongkong dollar not officially interfered with, the commercial community has a stable 'legal tender' and does not worry about the multitudinous fiscal policies of the various authorities. The government pays for what it buys, in gold and silver, and otherwise does not, as before, starve its public servants and soldiers. Graft and other forms of squeeze have therefore declined but still corruption is in evidence everywhere.

Foreigners have, by and large, left Canton and there is no sign that even a few of them will ever return. Shamen is now 'freed from the foreign yoke' much to the chagrin of the Chinese businessmen and the educated people in town. Foreign residents, businessmen and professionals, are so few that one can count them on two hands, and even this number is dropping. When the great change-over will finally occur—of which not all seem to be convinced—there should be little need for foreigners to maintain their own businesses in Canton; they can send their compradores (or Chinese managers, as is now the fashion to write) and keep a small staff of local clerks until such time as the various state trading corporations will monopolise imports and exports.

Silver coins:—In view of the losses entailed in the minting of silver coins as reserve for the silver dollar certificate, the Canton government has stopped placing further minting orders in the USA. While it was quite a profitable business to mint these coins about 3 months ago when 1 silver dollar piece could buy about HK\$6, it is certainly a losing deal now when the silver coin has come down to its proper value of about HK\$3.20 in accordance with the international price of silver. The total cost of minting 1 silver dollar piece in the USA amounts to US\$0.65 (equivalent to about HK\$4) which sum consists of US\$0.45 for the metal content and US\$0.20 for insurance and freight. In order not to cut down on the reserve of silver coins for the silver dollar certificate, the government continues to defray its military and administrative expenses with gold. On September 1 the Central Bank received 70,000 taels of gold from Taiwan to

meet these payments which amounted to about 100,000 taels of gold for the month of August. As from September 1, all government payments will be made in Chungking as both the Ministry of Finance and the Central Bank Head Office have nearly completed their removal to Chungking.

Silver dollar subsidiary notes:—The Kwangtung Silver Dollar Subsidiary Note in denominations of 1, 5, 10, 20, 50 cts. and \$1 is a regional paper currency which was first issued by the Kwangtung Provincial Bank some three months ago and it circulates parallel with the Silver Dollar certificate which is the present legal tender of the Nationalist government. As all the taxes and rates within the province are collected in this regional currency its circulation has extended to all the provincial districts. Nevertheless the people generally redeem the notes as soon as possible. For the month of August, \$550,000 in these notes were issued and \$540,000 were returned. There is still in circulation a total of \$370,000 of this paper currency. The Kwangtung Provincial Bank together with all its branches is said to have now a total reserve of \$370,000 in silver coins.

Business with Chungking:—The unfavourable war situation in north Kwangtung has greatly stimulated business between Canton and Chungking. Transportation of cargo is almost solely done by air. Besides CNAC and CATC, the CAT is handling the majority of the cargo traffic on account of its favourable rates which only CAT can give as it gets its gasoline supply from the oil companies at very much reduced prices. During the last week of August a total of 60,000 Kgrs. of medicinal herbs, tung oil, bristles and native linen were transported to Canton while a total of 125,000 Kgrs. of cigarettes, cotton cloth, woollen yarn, rubber manufactures and seafood were airlifted to Chungking.

Reports from Chungking

Chungking, China's wartime capital, has since the past several months fallen into a state of commercial and industrial depression. While the civil hostilities are about to engulf the southwest of China some business incentives may have been killed but the present slack situation is largely accounted for by the cutting of the Yangtse waterway to cities (Hankow, Nanking and Shanghai) in its lower course, which have fallen to the Communists. Chungking's business with the outside world has mainly depended on the cheap water transportation that the Yangtse affords. Now not only the export trade of native produce via the Yangtse has been disrupted but the supply of raw materials on which native industries are so dependent has also been cut. The eventual removal of the seat of

the National government here may revive the city to some extent but the picture at present with mounting unemployment and cost of living is all too sad.

Commodities:—The Communists' advance to South China has recently caused large amounts of idle capital to flee to Chungking, the majority of which money has found its way into the commodity market. Big fluctuations in prices of gold, rice, cotton yarn, flour and cigarettes have been recorded. During the latter part of August, rice was sold at silver \$17.50 per picul (ordinarily at 12), and daily interest on loans was as high as 5.5%. Prices were somewhat stabilized only after the Central Bank had released a large quantity of gold on the market arresting part of the idle capital. Rice has dropped to silver \$13 a picul.

Cotton-export:—The Southwest Military and Political Administration has denied any prohibition it was reported to have put on the export of raw cotton out of Szechuan. It is emphasised that merchants are free to dispose of the 200,000 piculs of raw cotton in stock. Great part of the stock has however been destroyed by the recent conflagration.

Salt-tax:—Salt tax has been readjusted according to prewar standards. An average of silver \$5.80 (about HK\$19) per picul is being levied. Average consumption is one catty of salt per month per head.

Metalware:—Supply of stocks from Shanghai was completely cut. Nearly all the dealers have sold what they imported before. Only small quantities trickle in from Canton and Hongkong by air. Transportation by air of this relatively heavy ware greatly increases the cost. Only larger firms as the Ta Tong Metalware Company are replenishing their stocks by air traffic. The others are only selling whatever they have left.

Insurance:—The insurance business in Chungking enjoyed a postwar boom. Early last year the number of insurance companies rose from 20 to 70. Most of them engage only in cargo transportation but a few in fire and life as well. The heavy postwar traffic on the Yangtse gave them plenty of business all of which has now been lost by the war situation. By the end of last August already 60 firms have liquidated.

Dyestuffs:—Much smuggling of dyestuffs into Chungking from Hongkong and Canton is being carried on. Dealers can obtain very little supply through legitimate imports as dyestuff is listed as one of the heavily limited import cargoes. Although demand has been somewhat lessened by the war conditions Chungking continues to sell to Sikang, Kansu, Shensi, Kwangsi, Tibet.

The Situation in Shanghai

If not for the imposition of the blockade (referred to by the KMT as port closure) the economy of Shanghai would have advanced during the last few months after the city's liberation last May 25. There is now only a trickle of foreign trade carried on by small vessels and junks which run the blockade but recently a well-organised effort to re-establish connections with Hongkong, and via the Colony with the world at large, has resulted in revived business of Shanghai. The port of Tientsin is now practically open to foreign ships' calling, and almost regular shipping traffic with that port and other North China ports has been resumed. Hongkong shipping companies no longer seem to be afraid of KMT interference with their business and more ships are presently put on the run. Shanghai merchants are routing their goods via Tientsin—they have of course to defray extra expenses for railway transport to the northern port from where ships from Hongkong haul them to their eventual destinations. Tientsin traders are doing a roaring business as not only a very extensive volume of commodities is passing through that port on the way to other destinations in North China but, for the time being, the majority of Shanghai's external trade must pass through Tientsin.

The blockade has caused many difficulties in the life of the people of Shanghai who are for the operation of the many factories greatly dependent upon the regular supply of imported raw materials but they also require for the upkeep of the ordinary pursuit of life a variety of consumer goods which, so far, cannot be produced by China's relatively backward industry. For lack of raw materials a number of factories had to suspend work, others had to curtail operations or to remove to interior parts of China where it is supposed domestic raw materials may be obtainable. The public utilities have been much impaired in their operations; the electric power company, having run out of oil fuel and now generate on coal, is supplying current at a steadily declining extent so that industrial users, even if raw materials are still available, often have to suspend production; household users, street lighting, tramcar service suffer under present curtailed power output. There is a serious water supply shortage which has recently led to the reduction of running water to 3 hours per day. Buses are running at present regularly as the diesel oil and substitute fuel oil stocks are still adequate.

Under present stringent conditions the surplus population of Shanghai—always a problem for the administration—must be urgently got rid of either by methods of persuasion or less gentle efforts. The success or otherwise of the depopulation plan of the new city government may have important repercussions on the future economic

structure of Shanghai. As the majority of the Shanghailanders were making a living on the proceeds of the commercial activity and in future foreign trade—even if continued on as large a scale as before the war—will be channelled increasingly through official agencies with middlemen bowing out of the field of commerce, the number of persons residing in Shanghai must undergo a drastic reduction. Factory removal will additionally influence a decline in the population figure.

The principal problems of Shanghai under present conditions of blockade may be outlined as under:

Food Problem:—The supply of food to over 5 million people of Shanghai had always constituted one of the major problems for the Nationalist Government even when large ECA help was received by them but now the burden rests on the Communists. Damages done to crops by the recent floods in rice producing areas hampered the food supply plans of the Communists who on the other hand have to keep up the feeding of about three million soldiers in active combat. So, as a measure to minimize the food consumption in Shanghai, a scheme was started to send the unemployed portion of the population as well as refugees who had swarmed into the city during the earlier stages of the civil war back to their native homes either in rural districts or other cities. A Repatriation Commission was formed on July 27 to execute the plan. To facilitate the work of the Commission special offices of Communist Party Headquarters in the various destination centres in Shantung, Anhwei, Chekiang, and Kiangsu have been established in Shanghai. So far over 400,000 people have been despatched from Shanghai under this scheme.

Barter of food for manufactures of Shanghai with other cities was instituted. Commodities for Shanghai are 180,000 piculs of cotton and 800,000 catties of rice from the Central China Trade Bureau, 2 million catties of rice from N.E. Kiangsi Trade Bureau and 1 million catties of rice from the Nanjing Trade Corporation. All these are to be bartered for mostly manufactured goods such as cotton piece goods, towels, and soap. Arrivals though not yet in full have already eased the food market. Rice which quoted PB56,000 (360 to HK\$1) per picul on July 31 dropped to PB\$44,000 (420 to HK\$1) on September 2.

Removal of Factories:—Lack of raw materials caused many factories to remain idle or to cut down drastically on operation hours. Plans to move the factories to places nearer to domestic sources of supply have been contemplated. The China Standard Pencil Factory was the first one to remove out of Shanghai. Its new site is in Harbin. Thirty tons of their machinery were shipped out of Shanghai on August 21. Others taking removal steps are: 1. Sing

Ho Cotton Mill, at present running 40,000 spindles and 250 looms, employing over 1,800 workers (destination—Honan); 2. World Handkerchief Factory, operating 150 weaving machines, 20 of which are being dismantled for removal (destination—Tientsin); 3. Lih Sheng Machinery Works producing weaving machines employing 150 workmen (destination—North China) and 4. Central Glass Factory which will remove entirely to Mukden within two months taking along the majority of its 80 skilled workers with their dependents.

Labour:—Soon after the capture of Shanghai (on May 25), labour disputes flared up, mostly over demand for increase in wages and severance pay. Over a thousand cases have been recorded up to the present. In the beginning the new authorities adopted a noncommittal attitude and simply indicated that wages could be adjusted in terms of rice which cost then the equivalent of about HK\$25 a picul of 160 catties but costs now over HK\$120. As the Nationalist blockade has brought business and industry almost to a standstill, both commercial firms and factories are in no position to make their ends meet and in fact are unable to pay their employees whose wages in terms of rice or 'parity units' are regarded as the highest ever recorded in Shanghai.

Under such conditions the authorities can no longer keep up their apparently indifferent attitude. To avoid a complete suspension of industrial activities the authorities recently relinquished their aloofness in the labour question and tried to regulate labour-management disputes. On one hand, a 'Labour and Capital Mutual Benefit Campaign' was started through the labour unions (present membership over 50% of the 1 million Shanghai workers) with a policy of lower wages and more working hours, and on the other hand labour regulations, the first of their kind since the capture of Shanghai, were promulgated, viz. 1.—Factories still in idle state since the liberation must try to resume operation otherwise permission to remain closed must be obtained from the authorities, 2.—When talks over wage disputes are under way, production must continue and striking is prohibited, 3.—Change of nature of production and/or reduction of employees by the management must be approved by the authorities, 4.—One month's notice and three months' severance wages must be given by management in case of dismissal of workers, 5.—Disputes that cannot be settled through arbitration may be brought before the People's Court, and 6.—Both labour and capital are not bound to fulfil conditions if accepted under duress. This two-pronged movement has liquidated many outstanding disputes while at the same time obviating rising ones. In several cases workers have agreed to have their wages cut by 20-30% and to raise working time by 1-2 hours per day.

Foreign Trade:— Large profit has induced sporadic blockade-runners to both Shanghai and North China ports, particularly Tientsin. The KMT blockade being evidently ineffective in North China waters after the loss of the Changshan Islands, there is a continuous flow of shipping into Tientsin which is under these new circumstances handling more foreign trade than Shanghai. To take advantage of the present favourable situation in Tientsin many approved import and export companies in Shanghai have applied for permission to establish branch offices in that North China port. Since the new regime is definitely following a policy of boosting foreign trade, such permission has been given by both the Shanghai Foreign Trade Control Bureau and North China Industry and Commerce Bureau.

In Shanghai itself the Foreign Trade Bureau has adopted some interim trade regulations which are intended as an assistance to merchants. The new rules provide for (1) that permissible export cargo may be secured through the tender system, and (2) that importers may dispose of their cargo in any one of the following ways:—(a) importers may sell their cargo to the Trade Bureau at an agreed price, (b) importers may request the Trade Bureau to secure export cargo equivalent to their imports, and (c) importers may sell their imports on the free market. The Trade Bureau has further obtained the approval of the Railways Administration to give transportation priority and reduced rates to exporters.

In the field of bristles the China Bristle Manufacturing Company belonging to the Shanghai Foreign Trade Corporation was authorised at the beginning of August to purchase bristles. In one week a total of 125 piculs were bought. Prices offered were PB\$550,000 (prevailing rate PB\$360 to HK\$1) per picul (of 110 lbs) for Shanghai Black No. 17 and PB\$700,000 for Chukking Black No. 27.

Cotton Situation:—The blockade has led to an acute cotton famine which resulted in the further increase of unemployed workers in Shanghai's principal industry—cotton spinning and textiles. The official Shanghai Foreign Trade Bureau is therefore anxious to interest merchants to get raw cotton to the mills of Shanghai. It is proposed by the Bureau that private firms act as cotton purchase agents for the authorities in the following manner: on all cotton purchases the buying merchant obtains a commission of 10% and is given a quantity of cotton cloth for sale to overseas customers on which sale he earns a commission of 20%. The Trade Bureau is bearing all transport and incidental charges and losses arising from market price fluctuations. Provision has also been made for conducting barter of cotton against yarn or cloth by turning over to an importer for every 500 to 520 lbs. of raw cotton one bale of cotton yarn or 30 pieces of cloth (grey sheeting). It is hoped by such measures to encourage private

Hongkong Stock & Share Market

A slightly better sentiment with more buying interest featured last week's market and some incurable optimists predict the coming of an all-round price improvement. It is true, that many of the forced sales of recent weeks have strongly contributed if not actually caused the slump conditions in the past month but on the other hand one cannot overlook the fact that buyers were largely absent and those fabulous conservative investors, who allegedly calmly and quietly add to their already swollen portfolios, were conspicuous by their reticence.

The yield expectation of local holders, the small and the big ones, is around 10% and under such conditions a forceful upward movement in share prices cannot be reasonably looked forward to. Hongkong is, unfortunately, regarded by the majority of investors as not too secure once the Chinese communists have eliminated the KMT—and that this process is most favourably developing for the communists can be gleaned from the headlines of the daily papers. The more solid and secure the general position of a country is believed to be the lower will be the yield of investments generally; the reverse appears to be true with regard to Hongkong. In 1947 and the larger part of 1948 the average share yield was around 5 to 6% but at present the return has doubled.

Forward settlement remains one of the 'hottest' matters for argument among brokers, jobbers, speculators and some of the local banks. The pros and cons have been aired sufficiently and it can be said that the majority of brokers, albeit a very narrow one, is not in favour of reintroducing limited forward trading. At a forthcoming meeting of share brokers the subject will be taken up once again in view of the trading slump and the urgency of stimulating a larger turnover. The advocates of the reintroduction of trading in futures would be satisfied with a change from the present daily to a proposed fortnightly settlement.

Politically, the market seemed to have come slowly to realise the baseness of fears regarding the threat to Hongkong by the Chinese communists. More well-informed reasoning is now in evidence and the loose talk of some time ago, which conjured up non-existing perils to the life of local residents and the safety of their property 'if Canton falls and the Reds take up positions along the Hongkong-

traders to supply cotton to the mills of Shanghai and at the same time to improve the export position of Shanghai made yarn and cloth. The import of smaller quantities of cotton appears possible as small steamers and junks can slip into the Whangpoo or otherwise unload their cargo in the vicinity of Shanghai. Overland transport of cotton after having been discharged in Tientsin is also promoted.

Kwangtung border', is abating though not yet fading out altogether. Prospective investors are often discouraged by dire predictions of 'trouble' and quite a few local and foreign investment brokers try to influence holders of idle funds to send them to the US, Australia etc.

Mr Felix M. Ellis

Last week occurred the death of Mr Felix M. Ellis, a well-known economist and one of Hongkong's prominent sharebrokers. During the years of internment by the Japanese as a prisoner of war the late Mr Ellis suffered greatly in his health and contracted a serious heart disease which, in spite of a long rest and attempted cures in American hospitals, did not improve. His death was mourned by his family here and abroad, the Jewish community of whom the late Mr Ellis was a leading member, a large number of personal and professional friends in all walks of life.

The Felix Ellis share price averages which constitute the only existing share price index in Hongkong were compiled by the deceased but his important work will be continued for the benefit of the local financial community.

Share Business of last week:

Volume of Business:—Total sales reported amounted to 67,103 shares an approximate value of \$1 1/4 million, an increase of \$1/4 million compared with the previous week.

Price Index:—The Felix Ellis averages based on the closing prices of 12 active representative local stocks closed at 125.06 for a net gain of .94 compared with the close of the previous week. Day-by-day, his averages were: Sept. 5, 124.58; Sept. 6, 124.83; Sept. 7, 124.83; Sept. 8, 125.06.

	High	Low
1947	155.82	123.88
1948	148.68	134.05
1949	138.37	123.32

Dividend:

The Directors of the Chartered Bank of India, Australia, & China have declared an interim dividend of 6% less Income Tax, payable on 1st October, 1949.

Business Done:

Banks:—H.K. Banks @ 1400, 1410, 1415, 1430.

Insurance—Unions: @ 635. **Docks, Wharves, Godowns, etc.:**—H.K. Docks @ 17; China Providents @ 11 1/2.

Hotels & Lands:—H. & S. Hotels @ 10.40, 10.50, 10.60, 10.40, 10.60; H.K. Lands @ 47, 46 1/2, 47, 46 1/2; Shanghai Lands @ 1.90.

Utilities:—H.K. Tramways @ 16, 16 1/2, 16 1/2, 16.30, 16.40, 16.30; China Lights (O) @ 10.90, 11.60, 11 1/2, 11.40, 11.60; China Lights (N) @ 8.40, 8 1/2, 8.60; Hongkong Electrics @ 29 1/2, 32, 31 1/2, 32, 31 1/2, 31 1/2; Telephones @ 19 1/2.

Industries:—Cements @ 19, 19 1/4, 19 1/4, 20.

Stores:—Dairy Farm @ 37, 37 1/2; Watsons @ 40, 42.

Cottons:—Ewos @ 4 1/2.

Exchange & Financial Markets

Hongkong Clearing House

During the first eight months of 1949 Hongkong Clearing House total amounted to \$7,288,920,944, an increase of 32.09% over the total of the corresponding period of 1948 (\$5,518,245,876). The clearing figures for July and for August were \$904.5 million and \$938.4 million respectively which amounted to increases over the respective months of 1948 of 37.74% and 40.52% respectively.

The monthly average for the current year (8 months) is \$911 m. The monthly averages for 1947 and 1948 are \$549.5 m. and \$688.9 m. respectively. Clearing figures for the current year (8 months average) exceed 1947 average by 65.77% and 1948 average by 32.32%. (Total clearings for 1947 and 1948 were \$6,595 m. and \$8,267 m. respectively).

Trade returns of the Colony and communication statistics bear out, together with the clearing-house amounts, the fact of the high level of local industrial, commercial and financial activity. As was said of the Colony's trade, that it goes from strength to strength, the same can be pronounced with regard to other economic activities in Hongkong.

Clearing-house figures for the first eight months of 1948 and 1949:

Amounts passed through the clearing:

	1948	1949
January	690,869,863	822,578,268
February	624,267,531	755,368,765
March	780,180,420	891,308,578
April	753,367,765	829,170,394
May	677,060,291	1,207,078,664
June	667,992,698	940,445,697
July	656,716,034	904,542,989
August	667,791,274	938,427,589
First eight months	5,518,245,876	7,288,920,944

Hongkong Currency Notes

Bank note circulation as issued by the three note-issuing private banks in the Colony amounted to \$875,111,090 at the end of June this year. The total bank note issue at the end of 1947 and 1948 amounted to \$675.1 m. and \$783.2 m. respectively. The June currency figure amounts to an increase of 30% over the 1947 figure and to an increase of 14% over the 1948 figure. The highest circulation was recorded here in April (\$880,952,687).

In addition to the issues of the three private banks Government also circulates notes of \$1 denomination, subsidiary notes and 10 cents coins, the total value of which is around \$20 million.

Of the note-issuing banks the Hongkong & Shanghai Banking Corp. accounts for 93½% of the total issue. In June the notes of the Hongkong & Shanghai Banking Corp. amounted to

\$818,376,790, of the Chartered Bank of India, Australia & China to \$53,570,310, and of the Mercantile Bank of India to \$3,163,990.

The total note, subsidiary note and coin circulation of Hongkong at the beginning of the second half year was about \$900 million. It is estimated that 25% of the Colony's note issue is circulating in Kwangtung and other parts of South China. There was, in May, a tendency noticeable in Canton to return Hongkong notes and to invest in gold, silver and US currency; however, the short-lived loss of confidence in the stability of the local currency has not led to a reduction in the use of the HK\$ in Kwangtung. Today as before the Colony's legal tender is widely used in South China and is being hoarded by farmers and urban people alike.

The monthly average of bank notes in circulation was \$860.1 million for the first half of 1949, corresponding to £53½ million. Considering the very large and ever increasing import-export figures of Hongkong, the buoyant bullion and exchange transactions, a growing industry, the housing construction boom, and the regular requirements of a population of almost 2 million, the current note issue figure appears small particularly when having regard to the fact that the local dollar is widely used as means of payment in Kwangtung.

US\$ Market

Highest & lowest rates of last week: Notes HK\$599—555, DD 597½—554, TT 596—556, corresponding to cross rates of US\$2.68—2.88. In foreign open markets, area account sterling was sold from 2.75 to 2.90. Free market rates in New York for three and six months forward contracts went to their lowest levels, viz. US\$3.79 and 3.75 respectively, but then recovered and higher rates are expected. Pound notes sold around US\$2.81 to 2.85. The outcome of the Washington financial conference is interpreted as aiding the recovery of sterling in free markets.

Turnover of last week: US\$3¾ million (TT 2¼ m., DD and notes 1½ m.).

Gold importers were absent from the market. With the gold importers heavy demand for TT New York now a matter of the past local open market rates are bound to show weakness and to drop, eventually, below overseas area account sterling crossrates.

Japanese account US\$ dropped in sympathy with open TT New York but still is excessively high. Importers paid last week between HK\$6.60 to 7, about 20% more than for TT New York. Supply of funds in Tokyo was easier.

The a la hausse speculation mainly arranged by Shanghai financiers has suffered considerable losses both in US\$ and in gold. Their complete lack of understanding of conditions in Hongkong and, in some instances, their mischievous designs calculated to cause economic instability in the Colony have resulted in the collapse of a good many Shanghai flight capitalists. Those who had confidence in the stability of sterling and who played in the market a la baisse have reaped their due rewards. The public at large is glad to see the artificially boosted gold and US\$ rates tumble down. Cost of living in the Colony should decline in due course. Imported merchandise which was paid for in US\$ at the previous high exchange rate will have to be sold at cost or even at a loss. New purchases from the US should be stimulated.

Chinese flight capital is still on the increase here. The amount of US\$, held mostly in notes, brought into Hongkong by chiefly Shanghai refugees is estimated in excess of US\$100 million; in addition, many recent immigrants dispose of large funds in the US and for reasons of upkeep of their expensive households and financing of various business ventures in Hongkong they have to liquidate part of their US balances. The local free US\$ market is oversupplied from these sources. Overseas Chinese family remittances, always stronger during the months of September and October, and increased US\$ and Peso export proceeds are in excess of import merchant demand. Since no gold imports, at least of no sizeable volume, can be expected in future the technical position here should continue unbalanced thus causing weak open US\$ market rates.

The determination of the local rate, in the past as in the future, will however remain connected with fluctuations in foreign markets, mainly New York, Paris, Zurich, Brussels, Milan. Provided that unofficial sterling is recovering abroad, as it appears likely under conditions as revealed during the Washington financial conference, and crossrates return to a level of around 3, the local open market rate should be below HK\$530. In the near future the arbitrage should be able to make profits only by reversing its course of operation of the last few months, i.e. by remitting sterling to Hongkong for

HONGKONG OPEN MARKET RATES per US\$100

September	Notes		Drafts		T.T.	
	High	Low	High	Low	High	Low
5	5.99	5.90½	5.97½	5.90½	5.96	5.93
6	5.98	5.87½	5.93	5.87	5.94	5.88
7	5.92	5.85	5.85½	5.82	5.85½	5.82½
8	5.90	5.76	5.83½	5.75	5.83	5.76
9	5.80	5.68	5.72½	5.65	5.74	5.67
10	5.77	5.55	5.67½	5.54	5.69	5.56

exchange into HK\$ with which to buy on the open market US\$ for eventual transfer to New York. On the whole, unofficial (area account) sterling rates are these days not much at variance, and arbitrage has to lie low.

Gold Markets

Prices continued to drop last week and the prospect for a reaction is not yet in sight. All factors influencing the local rate point towards further price declines. Sterling has appreciated in overseas unofficial markets and the devaluation of this currency is far off if ever it comes. Gold imports, as usual from Macao but characteristically enough from South and now even North China, are bringing local stocks up to record levels while at the same time exports to Far Eastern countries are small and have therefore hardly any bearing on the over-all gold position of Hongkong. China as a large customer of gold has to be written off.

Much of China's liquid wealth (gold, foreign currencies) has found a haven in the Colony and more is arriving week after week. Present gold stocks in the Colony amount to around 600,000 taels (720,000 ozs. troy), viz. some 335,000 taels of ready delivery trading stocks and over 250,000 taels of hoarded bullion (in private homes, bank safe deposit boxes).

Last week's highest & lowest prices were as follows:—for .945 fine gold bars \$335—294 per tael, corresponding to .99 fine gold prices of \$351—309 per tael and \$259½—256½ per oz; actual business for .99 fine bars was recorded at \$352 high, and \$310, low. Cross rates per oz. were US\$49 high, 46 low.

Trading Reports of last week:

Monday, September 5:—Opening and closing rates \$329—331. On the fictitious forward market the change over favoured sellers at the interest rate of 19 cents per tael of .945 fine per day. Throughout the week, the change over rates continued in favour of buyers. The Kunming political report induced the bulls to buy and the rate went to the highest of the week, \$335. Importers and Cantonese operators heavily sold and subsequently the market turned weak.

Tuesday, Sept. 6:—Opening and closing \$333—325½. Change over 28 cents. Continuous selling by the Central Bank of China in Canton indirectly caused the local market to assume an easier tone.

Wednesday, Sept. 7:—Opening and closing \$327—323. Change over 16 cents. Imports from Canton and Macao were pouring in, buyers were absent.

Thursday, Sept. 8:—Opening and closing \$322—313½. Change over 26 cents. Better news influencing the standing of sterling were issued by the Washington financial conference which caused bulls to unload at losses.

Friday, Sept. 9:—Opening and closing \$312—302½. Change over 12 cents. Continuous liquidations by bulls unchecked.

Saturday, Sept. 10:—Opening and closing \$300—297. Change over 7 cents. Even lower change over interest would not induce buying, lowest of the week

294 recorded. Market continued easy. In the unofficial afternoon market, some small business done at \$297—298.

Tradings, Positions and Cash Bars:

During the week under review, tradings totalled over 172,000 taels, daily average worked out to be 28,500 taels. Positions left open estimated at 148,000 taels per day, in which interest hedging forward operators, gold importers and Canton operators were oversold, Shanghai, Swatow and local operators overbought. Cash bars turned over officially at 29,870 taels, unofficially over 15,000 taels, a total of about 45,000 taels.

Imports, Exports, Stocks, and Consumption:

During the week under review, more than 38,000 taels were imported, in which 14,000 taels were from Macao, 22,000 taels from Canton, and 2,000 taels from North China. About 13,000 taels were exported, of which 6,500 taels were sent to Bangkok, 3,000 taels to Singapore, 2,000 taels to India, and 1,500 taels to Haiphong. Ready delivery stocks, excluding those hoarded, but including those mortgaged to the banks, increased to 335,000 taels. Over 20,000 taels changed hands by interest hedging forward operators. Local consumption increased to about 5,000 taels, for the public were buying more ornaments at the present reduced price.

Unofficial Exchange Rates

Banknote prices in terms of HK dollars:—Piastres, forward, highest and lowest rates 12.70—12.35, spot notes 12.90—12.55. Nica guilders 26½—24½. Baht 26.70—26½. (Per one hundred currency units).

Pound note 15.70—15.30, Australian pound 12.40—12.35, Canadian dollar 5.48½—5.20, Indian rupee 1.19—1.18, Burmese rupee 0.74—0.72, Ceylonese rupee 1. Peso 2.84—2.70, Malayan dollar 1.83¾—1.82½.

Silver Market

Highest and lowest prices of bar silver quoted were \$4.25—4.15 per tael, Hongkong, Mexican and Australian Silver Dollar coins \$3.05—2.90 per coin, Chinese Dollar coins 3.12½—2.95 per coin and twenty-cents coins 2.80—2.80 per five coins. Rates dropped slowly. Business was rather quiet and reduced in comparison with the week before. Turnover is estimated at 98,000 taels in weight, mostly in Chinese Dollar coins.

Sailing-boat Chinese Dollars were quoted a little higher than the "Yuan" and the "Sun" Dollars, the reason being that it was easier to circulate them in China.

Government mints in China are now (1) Taiwan Mint, producing 100,000 pieces daily; (2) Chengtu Mint, producing 100,000 pieces daily; (3) Chungking Mint, producing 50,000 pieces daily; (4) Kunming Mint, producing 30,000 pieces daily; (5) Canton Mint which however ceased producing for fear of the approach of the People's Army and planned to move to Hainan. Bar silver in the hands of the Chinese Government totalled about 8

million ounces. This amount will suffice to run all the mints for 2 months. New arrivals from abroad are expected. Overseas prices were quoted at 73½ cents per oz. in New York and 44½ d. in London. A slight lowering in market rates abroad is anticipated during the course of this year. The US Treasury continues to buy US-mined silver at the fixed support price of 90½ cents per oz.

Chinese Exchange Markets

Remittances to Tientsin and Shanghai were confined to small amounts of family requirements. Gold and US\$ exchanges with Shanghai were quoted 930—910 and 870—830 in Hongkong for 1000 in Shanghai respectively. Business transacted totalled about 2,500 taels of gold and US\$45,000. It was reported that sellers were mainly those who wished to remove their wealth here and buyers were smugglers, who shipped gold and US\$ here to profit by the differences. Transactions may increase in future if the KMT blockade weakens.

Business with Canton remained to be done in Hongkong currency and quoted 1005—1001 in Hongkong for 1000 in Canton. Business done reported to be HK\$2,700,000, an increase over the week before which was caused by the flowing of gold from Canton to Hongkong.

Business transacted with Amoy was mostly in US\$ and with Swatow in Hongkong currency. Some business totalling about HK\$450,000 was transacted early in the week, but nothing was done during the latter part as fighting approached these ports and merchants were planning to take refuge. Rates quoted 1010—1005 in Hongkong for 1000 there.

COMMERCIAL MARKETS

Overseas Markets

Hongkong is fast falling into line with the rest of the world in her search for overseas markets. This is a comparatively recent development, as before the war little was done in the way of manufacture, the port being almost exclusively content with the role of entrepot between China and the rest of the world. This does not mean, however, that manufacturers, especially those in North China, had not visualised the possibilities offered by the Colony for as far back as in the thirties some far-seeing manufacturers in Shanghai studied the possibility of establishing at least a branch factory in Hongkong which, in the event of trouble—Japan was then regarded as the arch-enemy of peace—could be utilised to ensure continuity. Many of these projects failed to materialise for various causes, one being the difficulty of acquiring land in the restricted area of the Colony, a difficulty which has since been overcome to a considerable extent by the development of roads, water, electricity and gas in the New Territories. The final result is Hongkong's inclusion amongst world exporting countries.

The two B.I.F. displays in London might be said to have been the inaugural step marking Hongkong's entry into the comity of exporting nations and these exhibitions undoubtedly went a long way towards publicising the Colony. The Hongkong Chinese Manufacturers' Union which is already well established was largely instrumental in organising the displays, but the Union as a body is more concerned with the Hongkong end of trade development, whereas a permanent office devoted to the overseas work of promoting trade has hitherto been absent. This serious lack of up-to-the-minute information regarding the possibilities of certain overseas markets, meant that manufacturers here were working somewhat in the dark, making stabs at requirements rather than working on a clear-cut basis.

The Foreign Trade Service which is now organised, is the natural corollary to the Manufacturers' Union and will correct misapprehensions regarding overseas requirements, note the standard of products acceptable in various markets, note the latest designs and tendencies in commodities, and will study regulations and all round needs as well as publicising Hongkong's manufacturers by arranging exhibitions and the organisation of a display centre for Hongkong goods. In fact the work carried out by such an organisation, if well supported by manufacturers in the Colony and well organised should prove of incalculable service. At the moment the scheme is in its infancy, but as the need of it is already acutely felt there is no reason why it should not expand into an important adjunct of the Manufacturers' Union.

Such organisations, although not always similar in formation, are universal and it is interesting to learn that Japan which before the war unfortun-

ately abused the functions of its foreign trade organisations, is again seeking to establish information centres abroad. The American authorities, well aware of this need to advance Japan's foreign trade, have already sanctioned the establishment of such centres in some of the leading cities of the world and it is clear that although the Hongkong organisation is wisely starting in a modest way by means of correspondence rather than personal contact, it will be necessary for it eventually to expand into recognised centres abroad.

Rice Prospects

A few months ago the Director-General of the United Nations Food and Agricultural Organisation, in reviewing the food situation of the peoples of the Far East, stated that the rice consuming part of these countries was worse off than at any previous period. It is true that he did not include Thailand, Burma, or Indo-China in this statement but a recent report of the US Department of Agriculture, which has been investigating the future prospects of Burmese rice, found that Burma's 1949/50 rice acreage is 20% lower than that of 1948 and only 63% of the pre-war average, all of which is not too encouraging. The actual figures as estimated are 8 million acres under rice as compared with 9,921,000 acres in 1948/9 and an average of 12,671,000 acres during the pre-war period. On the other hand, the Thailand Government has announced that every encouragement will be given to the production of rice in that country, which includes improved transportation, irrigation, marketing, etc. The value of this export to the national income is fully recognised. It is also interesting to note that the Thailand Government is taking steps to introduce a bill at the next parliamentary session authorising a rice export monopoly by the Government. This follows the announcement by the FAO that international rice allocations will be discontinued as from December 31.

In the meantime, Japan has concluded a contract with the Burmese Government under which some 70,000 tons of rice will be exported to Japan. This is only a part of Japan's rice needs, as recently a contract was signed with Thailand for the delivery of a further 30,000 tons, bringing the total amount contracted for up to 150,000 tons, of which some 80,000 tons have already been shipped from Thailand to Japan.

It is reassuring to know that Taiwan is well supplied with rice as the result of an unusually fine bumper crop of over 1.2 million tons this year—the highest yield since the end of the Japanese occupation of the island in 1945, although a drop of 200,000 tons from the peak rice yield under the Japanese administration. However, according to a statement by the Governor of Taiwan, the crop though excellent will be barely sufficient to feed the island's population of 6.7 million, so that other sources may have to be approached to fill any deficiency in supplies. An interesting point in connection with this

fine yield is that 97,729 tons of fertilizers were used,—also a postwar record.

Tientsin Trade

The barter system of trade with North China, working through Tientsin, which served its purpose during the early days of the change-over from the Nationalist to the Communist regime, is now being replaced by ordinary trade, accompanied by applications for exchange in the case of imports and the surrender of exchange where exports are concerned. Contracts entered upon before August 31 under the barter system will be considered valid.

Trade with North China has been a complete reversal of what had been feared as a result of the Nationalist blockade of ports under Communist control, and indeed some find it hard to credit the figures issued by the Tientsin Navigation Office showing the extent of the trade that has been carried on through this northern port.

For July the total value of imports amounted to over \$1 million, the main commodities being paper, ores and chemicals; exports came to the same amount, consisting of vegetable oils, beans, bristles and eggs. This \$2 million worth of trade was carried on almost entirely through Hongkong.

During August, some 70 ships of a total tonnage of 130,000, 65% more than during July, entered and left the port, carrying 2,206 passengers and 31,000 tons of export-import cargo. One half of these ships consisted of Chinese coastal vessels trading between Tientsin and Tsingtao, Dairen and Yingchow. The other half was composed of ships under foreign ownership arriving from Hongkong, the USA and Japan, and carrying American raw cotton, chemicals, paper and ores, as well as machinery and general cargo.

Recently enquiries have been received in Hongkong from Brazil and Argentina for Peking rugs, of which there is a stock in Hongkong. These rugs were obtained from Tientsin under the barter system, the exchange being based upon smoke rubber sheets and industrial chemicals. From Japan, also, enquiries have come in regard to about 20,000 rugs of different dimensions. In future, with the development of trade direct with Tientsin and other countries as shipping facilities improve, this description of trade will probably revert to the northern port as in the past and not be carried on through Hongkong.

The Philippines Lumber Trade

The lumber trade in the Philippines which has been in a promising condition for some time past, is now to have a further fillip by a loan from the Import and Export Bank amounting to US\$250,000 earmarked for the Dasian Lumber Company which deals in mahogany or "Dasian," its trade name by which it is known in the US. The wood which grows principally on the east coast of Luzon and where the Dasian Lumber Company has its concession, is noted for its extremely fine grain. The People's Bank and Trust Company of Manila is also extending credit to the

Company and altogether some US\$ 750,000 will be provided. Modern American sawmill equipment is being installed, as well as the necessary equipment for the transportation of the lumber to a deep sea port from which the bulk of it will be shipped to the United States.

There are some 29 million hectares of forest land in the Philippines and of this number 13 million hectares come under the heading of commercial forests. Of these, four million cubic metres of timber may be cut every year, but up to the end of 1948 not more than half this amount had been felled. This was partly due to the lack of the necessary number of sawmills, a shortage of labour, and unorganised overseas markets. The exploitation of the Dasian Lumber Company's concession of approximately 230 square miles will materially aid the timber trade. During 1948 the 340 sawmills in operation in the Philippines produced nearly 800,000 cubic metres with a trade value of P.71 million.

Plastics from Rubber Latex

Considerable interest has been created in rubber circles by the news that a Dutch chemical establishment intends to manufacture under licence, on the basis of patents held by the Dutch Rubber Institute at Delft, a plastic from rubber latex and hydrochloric acid, to be marketed under the name *rualahyd-plastic*. Before the war hydrochloric rubber was manufactured by the American chemical industry; it was used on a large scale as a transparent packing material (film), particularly in those cases where the exclusion of moisture was of paramount importance. The Rubber Institute has developed a process which leads to a much simpler manufacture of similar products, and in addition opens up some unexpected modes of application. For the Netherlands it is of particular importance that the existing apparatus can almost entirely be used for this process, so that hardly any foreign currency is needed for investment. Hydrochloric rubber will be supplied as a basic material to other industries. This process spells the beginning of a new era for the tropical cultivation of rubber. In the past few years not only have plastics entered into competition with natural rubber, but in addition plastics have increasingly acquired new fields of application.

TIMBER SHORTAGE IN THE FAR EAST AND BAMBOO CONSTRUCTIONS

The timber shortages in Far Eastern countries are due as much to wasteful uses of timber as to lack of adequate forest development. Timber has been wasted on a large scale because of wrong engineering design and the use of untreated woods, but if the problem of utilisation is tackled properly and the timber surplus countries cooperate with the deficit countries, there need be no apprehension over a timber famine or over inadequate supplies in the coming years for even large-scale industrial development. The case of railway

sleepers or cross ties furnishes a prime example of waste. Not only the bulk but the cream of timber is commanded for sleepers by the governments which usually own the railroads. These sleepers are made according to a design fixed nearly a hundred years ago when easily accessible virgin forests were still standing. Their production requires large sized trees and large parts of trees, and there is wastage of nearly 50 per cent of the log in conversion. The same width and number of sleepers per mile are used in East Asia as in temperate countries, although some of the Asian hardwoods have 50 to 75 per cent more strength than the hardwood or softwood sleepers used in other countries. The possibility of saving at least 80 to 40 per cent of timber in railway sleepers, and of a 50 per cent to 10 per cent reduction of waste during the conversion of logs, should be fully explored.

As regards timber for rural housing and other rural needs, 90 per cent of the population lives in villages where housing conditions are appalling and a disgrace to modern civilisation. Flooring consists of mud stabilised by repeated coatings of cow dung (an excellent medium for the growth of bacteria and insects); walls are of mud or mud plastered over untreated bamboo or poor timber. A few sapwood posts are used. Since the ground is infested with white ants, the timber or bamboo members last hardly two or three years, when the whole structure has to be rebuilt. Roofs of sapwood poles, unsplit bamboos, bamboo matting, or palm leaves are gradually destroyed by termites and rot, and often collapse suddenly in storms. An interim solution to the problem of rural housing in East Asia could be based, to a large extent, on the integrated and scientific utilisation of the bamboo resources of the Far East. Bamboo resources are more than adequate. Bamboo is nature's cheapest box-girder, and can be harvested on a five-year rotation. Its exploitation does not call for expensive or intricate machinery; its transportation is easy. All that is needed is standardisation, prefabrication, and mass production of building elements after architects and engineer have developed aesthetic designs of different rural houses. The knowledge of how to make these houses already exists.

Many other possibilities of improved timber usage are possible. For instance, the use of charcoal instead of fuelwood in urban areas to save costs of transporting wood over long hauls; use of pressure treated telegraph and telephone poles re-designed for specific application to East Asian conditions; introduction of new urban housing types after the manner of those in Japan, where the whole house is built of light materials and not designed as a fort with iron bars for all windows; explorations of new types of uses of wood and bamboo in industrial buildings, marine construction, and high-

way bridges. Those who aim at the maximum of public economy should make sure that no false economy or enslavement to tradition is permitted to thwart their judgment in the selection of structural materials.

KOREA'S TEXTILE BAG TRADE

Textile bags are not produced in South Korea at present. The extreme shortage of textiles has necessitated the use of most goods produced since the end of World War II, for clothing purposes, with the exception of some cloth which is allocated by the Department of Commerce to a mining company. This company, a major producer of tungsten in South Korea, packages its product in 50 kilogram bags made of heavy cotton cloth; a double bag is used due to the nature of the product. 4,400 double bags are used per month. These are manufactured for the mining company by two firms in Seoul. Minerals shipped abroad are packaged in textile bags. This is the only type of commercial textile bag manufactured in Korea. 67,980 yards of cotton sheeting and 901 yards of canvas were allotted to the mining company in 1948. Allocations in 1949 have been on a monthly basis varying with the needs of the company.

The principal source of packaging material in Korea is rice straw from which 29,015,532 bags have been made in 1948 compared with 80,142,629 bags produced in South Korea in 1944. It is expected that 27,500,000 will be produced in 1949. The Government has tied the collection of straw bags in with the annual rice collection program, setting prices and establishing quotas to be collected from the farmers. There is little commercial production of this type of bag, most being made by farmers at home during the slack winter months. The bags collected are used by the Government, exported to Japan, or distributed to firms needing them. One of the principal uses for straw bags is the packaging of rice and other agricultural products. In the fall of 1947 and winter of 1948, 22,907,000 straw bags were collected from the farmers.

Korean textile equipment, which is usually of Japanese manufacture, is in need of replacements and spare parts, as there has been little maintenance. The two factories which produce small numbers of bags are not designed primarily for that purpose, and the bags produced represent only a small fraction of their total production.

Since the end of the War the textile industry has suffered from a shortage of raw cotton and electric power. These factors, coupled with the repatriation to Japan of Japanese technicians and the obsolescence of machinery, have retarded production. The electric power output is improving, however, and the Economic Cooperation Administration plans to import 15,670 metric tons of cotton in the fiscal year July 1, 1949—June 30, 1950.

Korean trade statistics show no imports of textile bags as such. Most bags imported have come together with specific cargoes to be packaged in them;

shipments of grain in bulk were accompanied by burlap bags and shipments of fertilizer were accompanied by quantities of paper bags. Most imports in the postwar period have been relief shipments of grain and other foodstuffs and fertilizers from the United States brought in by the U.S. Army and, since December 15, 1948, by the Economic Cooperation Administration. Salvaged sugar and flour bags obtained from these imports plus stocks of bags abandoned by the Japanese, have accounted for most of the textile bags available since 1945.

There have been no postwar exports of textile bags from Korea. In 1948 the Korean Government sold 5,000,000 straw bags to Japan, most of which are of a size to contain 5 large mal (165 pounds) of rice. The coarseness of the straw weave varies with the intended use of the bag. In 1944 all of Korea exported 4,369,000 straw bags to Japan. The Government plans to send 10,000,000 bags to Japan in 1949.

The Government allows the import of textiles and raw cotton but the export of these items is prohibited due to shortages. Government control over the textile industry has been a factor in preventing the diversion of textiles from clothing to textile bags. The Government also controls the collection and distribution of rice straw bags through its rice collection program.

There is little likelihood that production of textile bags will be increased within the foreseeable future and even less likelihood that the Korean economy will be able to pay for substantial imports of this type of bag.

* * *

HONGKONG COMMODITY MARKETS.

Cotton Piece Goods

After its little burst of activity, the cotton piece goods market settled down into dullness again and very few transactions took place during the week. Prices showed a further increase all round: grey sheetings Mammoth Bird brand rose from \$46 to \$46.90 per piece, Bellman brand rose from \$42.50 to \$45.60, Double Lamp from \$42.80 to \$45, Peacock (new) from \$44 to \$46, Precious Jade from \$41 to \$42.50; white cloth Bee & Monkey brand increased from \$43.50 to \$45 per piece, Camellia rose from \$45 to \$46, and Fountain Hill from \$50 to \$53; black cloth Bee & Eagle rose from \$55.50 to \$58 per piece and Gold Cup from \$50.50 to \$53.

Metals

The metal market continued weak and little interest was shown on the whole. Japanese galvanised mild steel sheets, thin, were an exception, new arrivals being easily disposed of 5' x 7' rising in price to \$9.30 per piece, while en route cargo was offered at \$8.80; Belgian 3' x 7' stood at \$9.70; British 3' x 6' were short of stock, but drew no buyers at \$7.60. Galvanised pipes met with a dull market re-exports having fallen off, especially to Siam, and local demands being weak: 1/2" fell

to 58 cents per foot, 3/4" fetched 70 cents, 1" dropped to 95 cents, 1 1/4" to \$1.40, 1 1/2" to \$1.60, 2" to \$1.90, 2 1/2" to \$4.50 and 3" to \$5.50 per foot. Black iron pipes also met with a fall in prices, but the transactions effected were still on a profitable basis: 1/2" fetched 57 cents per foot, 3/4" was sold at 68 cents and 1" at 90 cents; British 1/2" forward price was 5 1/2d and 3/4" forward was 6 1/4d; French forward price for 1/2" was 50 cents, 3/4" 60 cents and 1" 80 cents, 1 1/4" was \$1.15, 1 1/2" \$1.45 and 2" \$1.95. On the other hand losses were sustained on transactions in wire nails: Italian 1/2" to 3/4" dropped to \$62 per picul, against the indented price of \$65, European 1 1/2" to 3" in kegs of 250 fetched \$44 and \$45 per picul for spot. British and Japanese brass sheets were almost level in price: G8 to G12 rose to \$200 per picul, G9 to G11 stood at \$175 and G13 to G16 at \$180. Both British and Japanese rolled brass sheets had a good market, local torch manufacturers particularly required the British product in order to comply with the conditions of Imperial Preference in sales to the United Kingdom: Japanese 7" width G8 to G10 stood at \$170 per picul, G10 to G11 were offered at \$185; British 12" G8 stood at \$222 and G10 at \$225 per picul, 8 oz. packing was offered at \$215, 10 oz. at \$210 and 12 oz. at \$220. New offers of British brass wire were higher than the Japanese prices; buyers would have preferred the Japanese product, but fresh arrivals were short owing to difficulties in obtaining exchange: British G8-G12 stood at \$160 for forward delivery, compared with the Japanese price of \$145 with quicker deliveries. USA tinplate in 200 lb. casks 20 x 28" was offered at \$130 forward booking, but dealers were not interested, turning instead to the British product 20" x 28" in 200 lb. casks in skids improved from \$117 to \$120 per picul. American tinplate waste was in demand by Tientsin buyers and improved from \$95 to \$99 per cask. Misprint tinplate, white base due to short stocks, improved in price from \$53 to \$62 per case, but black base dropped from \$48 to \$40 per case.

Cement

A new offer of 10,000 tons of European cement at 15/- per ton was received, which would work out at around \$118, but merchants were not interested considering the price high compared with the Japanese product, especially as quicker delivery could be effected. Japanese cement in 100 lb. bags rose from \$5.80 to \$5.95 and \$6 per bag for spot. Expected new arrivals of Indo-China Red Dragon brand cement having been delayed and with low stocks, the price rose to \$6.20 per 1 cwt. bag. Green Island cement in 94 lb. bags sold at the official price of \$5.60 per bag ex-godown, "Emerald" brand in 112 lb. bags stood at \$6.50, "Emeralcrete" rapid hardening cement in 112 lb. bags sold at \$7.50, "Snowcrete" British white cement stood at \$55 per drum of 375 lbs. nett, "Snowcement" cement paint sold at \$58 per steel drum of 112 lbs. nett.

Glass

Stocks of glass are large, with French glass comprising the major portion, and re-exports to Amoy and Foochow have been greatly affected by the advance of the communist armies in those districts: Japanese 100 sq. ft. 16 ozs. found no purchasers although offered at \$30 per case, Polish glass 200 sq. ft. 18 oz. was offered at \$50, French 16-18 oz. stood at \$25.50, Belgian 200 sq. ft. 18 oz. was offered at \$56 and 400 sq. ft. 44 oz. stood at \$450 per case.

Paper

Paper merchants have received a much-needed assurance from European manufacturers that there will be no further price cuts before next March, which will allow time to clear the existing stocks. Losses have been estimated to run to over \$6 million on the reductions in price. British cellulose was low in stock and the price of 36 x 39 improved to \$76 per ream with Cantonese buyers in the market. Strawboard (Dutch) showed lower prices, stocks being large, and a shipment of 1,000 tons being expected importers were anxious to clear for storage space: G8 fell from \$380 per ton to \$360 and \$350, G10-G16 dropped from \$360 to \$340 and G20-40 was offered at \$430, but buyers were not interested.

Gunny Bags

Until the clarification of their import regulations by the South African Government at the end of this month, merchants will be in doubt as to the position in regard to gunny bags. Meanwhile the markets in Formosa and Tientsin are being developed as fully as possible. Offers received quoted Rs.223 or the equivalent of HK\$267 per 100 bags of Heavy Cees for shipment September/October c.i.f. Tientsin, the highest offer being \$280 per 100 bags with immediate shipment from Calcutta; c.i.f. Keelung, Formosa, was \$260 per 100 bags for gunny "A" twills. A later offer was Rs.195 per 100 bags c.i.f. Hongkong with transhipment to Tientsin for buyer's account, or alternatively c.i.f. Tientsin direct from Calcutta at Rs.226; the uncertainty of shipments to Tientsin, however, made buyers shy of forward bookings. On the local market Heavy Cees fell to \$2.85 per bag for spot and ex-ship was offered at \$2.55 with no transactions; in Tientsin the price was reported at \$3.90 to \$4 per bag.

Vegetable Oils & China Produce

During the period July 26 to August 25, larger deliveries of vegetable oil were made than during the previous period, this being due to the desire on the part of producers to get their stocks out of the way before the advancing tide of war. The major portion or 2,017 tons consisted of teesied oil, tungoil coming next with 1,121 tons; other oils received were rapeseed oil, groundnut oil, bean oil, coconut oil, aniseed oil and cassia oil. An addition-

al supply of 1,000 tons of tungoil from Tientsin, from stocks in Shanghai taken over from the Nationalist Government by the Communists, was expected to arrive shortly. Offers in respect to tungoil have been received from New York at US 22 cents per lb, and from London at 19/- per cwt, with negotiations continuing. Prices of tungoil (woodoil) improved somewhat, due to increased charges by suppliers, rising to \$153 per picul and closing at \$156 without export permit and \$154 with permit. Teased oil, 5% acid, rose by \$5 to \$170 per picul and closed at \$172 with an anticipated further increase; supplies were from the West River, Kwangtung, those from the North River having ceased. Rapeseed oil remained steady at \$116 per picul.

A shipment of groundnut oil, best quality, arrived from Tientsin, but Formosan buyers who were in the market were not interested, some small transactions, however, in the second quality were transacted at \$118 per picul; a supply arriving also from Chefoo met with a favourable reception at the reduced price of \$124 per picul; Swatow Dragon brand sold for 175, Flying Horse brand for \$177 per picul and in small tins for \$17 per tin. Singapore coconut oil improved, and North China buyers bought at \$110 per picul.

Aniseed oil sold for \$685 per picul, but stocks running out no further transactions could take place. Tung-hung cassia, whole, had a weak market, selling at \$72 per picul; cassia lignea in packages sold at \$51 per picul and in bundles at \$53 per picul, an improvement on the earlier prices; Indian buyers were in the market for the West River product, which fetched \$54 per picul in 60 catty packing; exporters to Europe were in the market for 84 catty packing at \$56 per picul. Owing to lack of demand, the price of cassia bud was further reduced and only a small turnover was effected at \$70 per picul; no improvement was anticipated in the near future.

Szechuan green ramie rose in price as a result of transportation difficulties and low stocks and was offered at \$165 per picul, but buyers were not interested at this price; the West River, Kwangtung, ramie \$167 per picul, when packed for export was offered at \$178 per picul; white ramie from Kiangsi being estimated at \$140 per picul on arrival, was offered at \$152 but buyers showed no interest. A lack of demand from Tientsin buyers, due to no immediate prospect of shipping facilities, caused the price of East River rosin to remain at \$31 per picul, but even at this low price no sales were effected.

Although overseas buyers were not in the market for feather, sellers held firm in their offers, expecting a shortage of supplies as a result of the civil war: GGS 85% stood at \$360 per picul and NN 85% at \$330; Haiphong second quality duck feathers were offered at \$190. A substantial quantity of human

hair nets arrived and a lot of 1,000 gross was placed on the market at \$16 per gross.

The present is the season for the silk waste export trade, but contrary to previous years a lack of demand has caused a weak market, with buyers for Europe hanging back for lower prices and sellers finding it difficult to meet them. A quantity of 100 piculs arrived by air from Chungking, the quality being special B grade,—little better than the Kwangtung product: sellers' offers were \$260 and \$300 per picul according to quality. As there was a quantity of over 1,000 bales of poor quality silk waste on the market, unsuitable for export, intending buyers insisted on inspection of the whole amount they desired to purchase before taking it up. Offers from Japan were at US 40 cents per lb. for the special B. grade; under the barter system, however, for Tenkyohai No. 120 bright rayon silk at US 66 cents, dealers calculated that at HK\$4.80 per lb. with surrender of exchange the transaction did not prove sufficiently profitable, and negotiations over price were continuing.

Ores

Following the continued fall in prices quoted from New York for tungsten ore (wolfram), local prices also fell: at the beginning of the week the price stood at \$250 per picul, dropping later to \$245 and \$235, but closing at \$245 though no transactions were recorded.

As a result of the lifting of the import restrictions on tin ingots into the USA demands have improved, although they are not for the present being filled through Hongkong. To avoid the surrender of exchange, exporters are sending the bulk of the metal to Macao for shipment to New York. The c.i.f. New York price is US 92 cents per lb. for forward delivery, whereas the spot price in New York was only 95 cents, the fall being due to the lifting of the import restrictions; the better quality tin ingot from Malaya was offered at US\$1.30 c.i.f. New York. The result of the transactions through Macao tends to deprive Hongkong of supplies: 99% Ho-Yuen, Kwangsi, tin ingots rose in price from \$615 to \$635 per picul with export permit, and Yunnan was offered at \$630 with permit; cargo without export permit did not interest buyers. China tin ingot for soldering 60% rose to \$405 per picul and 50% to \$350.

Beans

The delivery and expected arrival of around 40,000 bags of soya beans was expected to depress the market price of this commodity, however the demand was brisk and sales were made at an increased price of \$41.20 per picul, although it was anticipated that there would be a fall to \$40 in the near future. Expected arrivals of beancake were disposed of at \$27.80 and \$28 per picul for ex-ship delivery for first quality and \$23 per picul for second quality.

Wheat Flour

Three shipments of wheat flour are expected in Hongkong from Australia, the indent prices being A £53.5/- per ton for 150 tons, A £49.10/- per ton for 500 tons and A £47.10/- of 1,000 tons for October shipment. With large stocks on hand, prices on the market fell: White Greens brand sold at \$21 per 50-lb. bag, Pipe brand at \$19.80, Saskania at \$21, Chief at \$20, Battleship at \$20.40 and Sampan at \$20.50, forward bookings ex-ship for delivery at the end of the month were at \$19.20 for Delta's Queen brand.

Sugar

Uncertainty accompanies any transactions in regard to Formosa sugar since a fire in Takao which destroyed some 20,000 tons destined for export; it is doubtful whether any substantial orders can be dealt with before January 1950 when the new crop can be allocated. Such offers as have been made from Formosa of granulated white sugar of either No. 24 or No. 21 quality have been quoted at the low price of US\$100/\$105 f.o.b. Formosan port, but these stocks have been procured from small farmers and growers and the quality may not be up to the required standard, consequently reliable importers of Formosan granulated sugar hesitate to accept these offers and prefer to wait for next year's supplies. The price for the guaranteed standard quality is around US\$112 to \$114 per metric ton f.o.b.

Formosan sugar ex-godown Hongkong sold at \$46 per picul and water-damaged granulated sugar for export fetched \$39 per picul, undamaged bags selling at \$43.80. Locally made sugar candy fetched \$58 per picul. A demand has been received in Hongkong from Rangoon for 1,500 tons of No. 21 Formosan soft sugar, but stocks are not sufficient to supply this; the price quoted is US\$112.50 per metric ton, but as payment is to be made in sterling from Rangoon negotiations are proceeding to clarify the question of exchange.

Potatoes and Fruit

A recent arrival of 1,000 tons of Australian potatoes which cost \$23 per picul, was sold at \$15 per picul for the first 600 tons while an offer of \$18 per picul was made for the remainder which the seller would not accept.

Large arrivals of 3,453 cases of oranges and 5,750 boxes of grapes are expected from America; previously forward bookings were made for oranges of 252 counts at \$43, but these are now raised to \$48 with the approach of the mid-autumn festival when the demand for fruits is always great.

Casings

Shanghai sausage casings sold on the local market at \$2,420 per picul, a fall of over \$1,000 against last month's highest price of \$3,500 per picul. Indo-China casings were offered at \$2,100 per picul but had no sales.

Prospect of Chemical Fertilizers in Taiwan

By Peter Loh

Market conditions in Taiwan:—During the Japanese period of rule the farmers of Taiwan were supplied with chemical fertilizers by the Farmers' Associations. Large quantities were made available and at a low price. This was possible under a system of subsidies from the Japanese Government, whose policy was to maintain a low price for fertilizers in order to keep the price of agricultural produce below the Japanese market rates. The consumption of fertilizers has been progressively promoted and the statistics of imports into this Island followed a regular ascending curve which was reaching the highest tonnage in 1939, as follows:

Sulphate of Ammonia and other Nitrogenous fertilizers	165,000 tons
Compound fertilizers ...	450,000 "
Bean Cakes	160,000 "

Since the Chinese Government recovered the Island farmers, through their Associations, requested the newly imposed Government to supply them with chemical fertilizers and at a low price. Since the post-war world market price of fertilizers is much higher, subsidies from the Government must thus be increased proportionately. Neither the Central Authorities nor the Taiwan Provincial Government being able to meet such expenditures, less fertilizers were supplied by the Government for distribution and sale through the Farmers' Associations. During recent years, the following supplies were made available to farmers:

In 1947, 135,000 tons of Nitrogenous fertilizers through UNRRA.	
" 1948 55,000 "	Chinese Government.
" 1948 40,000 "	Taiwan Sugar Corporation.
" 1949 43,000 "	E.C.A.
" 1949 40,000 "	Taiwan Provincial Government.
" 1949 40,000 "	Taiwan Sugar Corporation.

Those fertilizers were mainly imported from the following countries: USA, Canada, Belgium, Italy, and Russia.

Imports during recent years are far below the pre-war level. But the need of the farmers for large quantities of chemical fertilizers is still there. At each fertilizer application season, farmers are promised by the Government that a certain amount of tonnage is being prepared and farmers are then expecting the cargo, whose arrival is indispensable to keep their fields in good productivity. But in receiving eventually only a small and insufficient supply, farmers in order to save their crops, are compelled to buy hurriedly any kind of fertilizer which is available from dealers, and of course, at a very high price. When such late demand by farmers enters the market, a big jump in the price of fertilizers is recorded.

Opportunity for Manufacturers to introduce their Brands:—All the fertilizers used by Taiwan farmers were supplied in the past entirely by their Associations through the help of Government. There are practically no transactions in chemical fertilizers through regular commercial channels, and there is no specific brand known or advertised particularly to the farmers. With the present political and economic crisis, the Government of Taiwan will have less opportunity and interest to purchase and distribute fertilizers and thus the shortage of fertilizers will become more acute. Under such circumstances, it is natural that the demand for fertilizers through dealers will grow rapidly. An expanding market can be expected. Therefore now appears to be the right and opportune time for overseas manufacturers to investigate the market of Taiwan.

At present, farmers in Taiwan are not yet generally accustomed to buying from dealers. There are no dealers in fertilizers such as exist in Amoy, Swatow or Canton, who are ready to place orders with the manufacturers. The entire commercial sales organisation in Taiwan must be completely created. Manufacturers must establish branch offices in Taiwan or appoint a commercial firm as their agent to push the business. Such a task involves some investment. Meanwhile, in view of the reaching the farmers, several subdealers should be established in the main consuming areas and put under the control of a central organisation to be set up in Taipah, capital of Taiwan.

The objectives of such a commercial organisation should be: (a)—to create a net-work of dealers, (b)—to negotiate with the local Authorities for the import of cargo. Investment would entail the carrying of stocks, financing of subdealers, and advertising the brand. For the start, there will be only prospects to interest farmers to buy cargo ex-stock through a subdealer, but later on as the market develops, main dealers will place orders for shipment from abroad. The foregoing is a general outline of the possible development of a chemical fertilizer market in Taiwan. Many other points and technical problems such as: import licenses, exchange, storage, transportation etc. have to be studied and discussed before taking steps.

Report from Malaya

Rubber

Ocean shipments of rubber, including latex, concentrated latex and revertex, from Singapore and the Federation of Malaya during July came to a total of 73,417 long tons, of which 41,287 was shipped from Singapore and 32,130 from Federation ports, i.e., 17,961 tons from Penang, 12,914 from Port Swettenham, and 1,255 from Malacca; sheet & crepe formed the bulk of the cargoes or 69,517 tons. For the first seven months of the year exports of rubber amounted to 522,596 long tons, 282,952 tons being despatched from Singapore and 239,644 t. from Federation ports. The July figure of 73,417 tons shows an increase of 26.6% over June (57,975 t.) and of 14.1% over May (64,323 t.), though still below the earlier months of 1949. The cumulative amount of 522,696 t. is below that for January/July 1948 560,540 t. and also that for the same period in 1947 534,185 t.

Of these exports the United States took 21.1% or 15,499 tons, making a total of 151,703 t. for the first seven months of the year, Great Britain came next with 19.9% or 14,649 t. (90,678 t. January/July), and the U.S.S.R. third with 13.7% or 10,077 t. (45,191 t. January/July); other countries follow with the quantities shown: France 7,477 t. (37,450 t. Jan./July), the Netherlands 3,865 t. (23,523 t.), Australia 2,914 t. (12,723 t.), Canada 2,871 t. (17,541 t.), Sweden 2,306 t. (9,783 t.), Italy 1,937 t. (16,867 t.), Hongkong 1,880 t. (7,185 t.), Poland 1,723 t. (3,549 t.), Germany 1,308 t. (36,048 t.), Spain 1,500 t. (2,617 t.), South Africa 911 t. (11,211 t.), Belgium 865 t. (6,047 t.), Argentine 545 t. (4,480 t.), New Zealand 524 t. (1,396 t.), Finland 484 t. (1,626 t.), Czechoslovakia 450 t. (3,253 t.), Denmark 412 t. (2,894 t.), Mexico 303 t. (3,420 t.), Japan 298 t. (13,415 t.), Turkey 150 t. (2,055 t.), Norway 140 t. (1,967 t.), Romania 99 t. (374 t.).

Tin

Exports of tin metal (primary) from the Federation of Malaya and Singapore for July, totalled 4,617 long tons, an increase of 59.7% over June (2,891 t.) and of 159% over May (1,777 t.). The cumulative figures for the first seven months of 1949 amounted to 30,648 t., which is above the amounts for 1948 27,290 t. and 1947 27,290 t. The bulk of the tin exports went to the USA 4,000 tons.

Soap

According to figures issued by the Registrar of Malayan Statistics, the total quantity of soap manufactured in Malaya during July was 37,882 cwts., namely 26,053 cwts. in Singapore and 11,829 cwts. in the Federation, of the latter 8,438 cwts. was produced in Penang; the total quantity sold was 20,658 cwts., 12,087 cwts. in Singapore and 8,571 cwts. in the Federation (5,163 cwts. in Penang); total stocks at the end of the month stood at 19,984 cwts.,

Japanese Economic Reports

Trade Agreements

Japan has concluded, through SCAP, further trade agreements with Latin American countries. Interim trade and financial arrangements have been concluded with Argentina, Brazil, Chile, Mexico, Peru and Uruguay; letters of understanding were exchanged with Colombia and Venezuela. Under the present arrangements, it is understood that a reasonable potential exists in

15,032 cwt. in Singapore and 4,952 in the Federation (3,615 in Penang)..

Imports of soap into Singapore and the Federation during June amounted to 8,658 cwt. of washing soap, (the cumulative figure for the half-year being 35,514 cwt.), 325,908 lbs. of toilet soap (1,170,404 lbs.), and 57,045 lbs. of other kinds of soap (306,939 lbs.). Imports came mainly from the United Kingdom with 8,658 cwt. washing soap (Jan./June 32,857 cwt.), 285,481 lbs. toilet soap (1,039,046 lbs.) and 57,045 lbs. of other kinds of soap (292,194 lbs.); Australia came next with 19,661 lbs. toilet soap (85,653 lbs.), followed by the Union of India with 15,669 lbs. toilet soap (27,160 lbs.), Hongkong 4,995 lbs. toilet soap (18,273 lbs.), and France 102 lbs. toilet soap (272 lbs.).

Exports of soap from Singapore and the Federation to other countries during June were washing soap 24,613 cwt. (Jan./June 90,598 cwt.), toilet soap 17,361 lbs. (35,971 lbs.), other kinds of soap 4,376 lbs. (32,128 lbs.). The bulk of the soap exports went to Hongkong, namely, 12,061 cwt. washing (45,425 cwt.) and 12,995 lbs. toilet (14,928 lbs.). Sumatra came next with washing 6,772 cwt. (15,130 cwt.) and toilet 4,171 lbs. (18,123 lbs.). North Borneo took washing 245 cwt. (1,680 cwt.) and other kinds 535 lbs. (983 lbs.). Burma took washing 1,696 cwt. (3,960 cwt.) and toilet 50 lbs. (147 lbs.). Iran had washing 1,071 cwt. (1,599 cwt.), Sarawak had washing 290 cwt. (2,193 cwt.) and other kinds 535 lbs. (983 lbs.). Arabia had washing 543 cwt. (4,858 cwt.), Rhiow & Lingga took washing 384 cwt. (1,839 cwt.), toilet 136 lbs. (264 lbs.) and other kinds 72 lbs. (512 lbs.). Pakistan took washing 105 cwt. (1469 cwt.).

Cargoes Discharged & Loaded

The monthly return of the Registrar of Statistics for the Federation of Malaya shows that during June 158,940 freight tons of cargo were discharged and loaded at ports in the Federation, making a total of 1,012,682 tons for the half-year: 101,024 tons were discharged & loaded at Penang, 42,852 t. at Port Swettenham, 7,749 at Malacca, 7,290 t. at Teluk Anson and 25 t. at Port Dickson. To break down the figures further, 91,634 t. were discharged and 44,644 t. loaded of general cargo (Jan./June 555,944 t. and 295,549 t. respectively), 50 t. discharged and 39 t. loaded of coal (413 t. and 126 t.), and 20,674 t. discharged and 1,899 t. loaded of oil-in-bulk (152,972 t. and 7,678 t.).

the ensuing 15 months for the export of approximately US\$100,000,000 worth of Japanese goods to Latin America.

These Latin American countries are interested in purchasing Japanese rolling-stock and equipment, heavy and light machinery, farm machinery and implements, metal products, textiles, chemicals, communications and electrical equipment. Major commodities available from these countries in return include wool, cotton, sugar, salt, metals and ores, coal, hides and skins and other materials.

In view of the fact that trade with these countries since before the war has not been sizable, the SCAP mission achieved an unexpectedly good result in effecting such trade arrangements. Japan's foreign trade prospects are promising judging from the successive trade agreements which Japan has concluded or is about to conclude. Recently, Japan reached a trade agreement with Belgium covering a one-year period from June, 1949 to May, 1950, and providing for barter trade with Belgium, Belgian Congo, Luxembourg. This agreement is considered important as Belgian Congo, of all Belgian destinations, demands about 100,000,000 sq. yards of Japanese fabrics annually. A Japanese-German trade agreement is about to be concluded providing for \$10,000,000 worth of trade for both sides, with Japan supplying silk, unprocessed textile products, copper, lead, tungsten, fish oil, tinned goods and textile machines in exchange for German fertilizers, dyes, machinery parts, experimental equipment and test tools. A trade arrangement with Pakistan, concluded at Karachi on April 30, provides for the exchange of \$30,000,000 worth of goods, with Japan exporting cotton fabrics and machinery and importing raw cotton and wool from Pakistan. Japan's trade agreement with South Korea was signed on April 22. Although the amount of trade was not officially announced, it was reported that the arrangement called for Japan's exports worth \$40,000,000 and imports worth \$20,000,000 with the balance to be paid out of the ECA fund. A \$23,000,000 trade arrangement with Burma was concluded early this year. The Japanese-Netherlands-Dutch Indies trade agreement concluded on December 31, 1948, covers a one-year period from October, 1948, to September, 1949. While the trade volume between Japan and the Netherlands, as provided in the agreement, is comparatively small (Japan's exports amounting to \$500,000 and imports \$600,000), trade with the Dutch Indies involves \$63,000,000 exports from Japan and \$23,650,000 imports from the Dutch Indies, with Japan's export excess to be covered out of the ECA fund. Major exports from Japan include textile goods (worth \$55,000,000), machinery, metal goods and sundries, while imports from Dutch sources comprise rubber, bauxite, sugar, salt and oil. The Japanese-Swedish trade agree-

ment signed on November 2, 1948, calls for Japan's exports worth \$5,319,500 and imports worth \$6,069,500. Another trade arrangement with Thailand (concluded on December 15, 1948) totals \$30,000,000 in both exports and imports.

Despite bright trade prospects under these trade agreements, the problem still remains as to how Japan may be able to reduce her import excess in trade with the United States. In trade with the countries with which arrangements have been made in the past, exports and imports may be balanced only with Germany, Pakistan, Burma and Thailand. Japan has to accept a small import excess in trade with the Netherlands and Sweden, and her export excess can be registered only in trade with South Korea and the Dutch Indies. Such an export excess amounts to only \$59,000,000, far too small to cover Japan's import excess with the United States.

Rising Deposits in Banks

Deposits in Japanese banks continued to make a fair showing in June. Postal savings, bank deposits and receipts by mutual financing associations in unison increased. Noteworthy is the fact that long-term deposits such as time deposits made particular headway. Up to the first half of 1948, such long-term deposits accounted for 7-8 per cent of bank deposits, as short-term deposits predominated. From the latter half of 1948, long-term deposits began to spurt up and came to account for nearly 20 per cent of total bank deposits in recent months. While the steady advance of long-term deposits is partly attributable to various premium attractions, such as special lottery prizes, major credit should be given the steady movement of the public appetite from commodities to cash parallel with the gradual stabilisation of prices. Equally worthy of note is a marked hike of small deposits by lower-bracket clients, as indicated by the steady gains of postal savings and deposits of mutual financing associations. The encouraging tone of deposit increases in the face of the prevailing monetary stringency is partly due to the apparent flow of hoarded cash holdings to banks and other monetary organs as well as to increasing signs of deflation under the Dodge financial program with the consequent absence of proper objects for investment.

Increasing deposits naturally replenished cash holdings of banks and enabled them to buy debentures and repay their debts from the Bank of Japan. Such a situation, however, began to change from July, as loans by the Bank of Japan, on a steady decrease for several months started to increase. Bank of Japan loans as on July 20 stood at Y77,000 million, registering a hike of about Y24,000 million from what they were on June 20, indicative of the tightened cash stringency on the part of city banks and the consequent dependence on loans from the Bank of Japan. Loans which city banks were forced to supply for tax payments

rather than as industrial funds were responsible for the accentuated money shortage among city banks despite rising deposits.

Increasing tax collections forced the Bank of Japan note issue to dip below the Y290,000 million mark on July 18. On the other hand, Government payments failed to make a corresponding progress. Hence, Government deposits with the Bank of Japan topped Y45,300 million on July 20, gaining by more than Y12,000 million as compared with a month ago. To cope with the situation, the Bank of Japan is now planning to transfer about Y10,000 million out of such Government deposits to city banks as "specified deposits."

Shipbuilding Business

The shipbuilding industry is about to make big strides because 40 ships for domestic use, in addition to those now under construction for export purpose, will be constructed in accordance with the fifth postwar schedule. The biggest boom since the war's end should now come for leading shipyards.

Since the Surrender, Japanese shipyards, pursuant to SCAP authorisation, have already accomplished four building programs through the medium of the Sempaku Kodan (Shipbuilding Corporation) which took over matters pertaining to shipping from the Sangyo Setsubi Eidan (a wartime corporation for management of industrial facilities). Ships have thus far been ordered at the joint responsibilities of shipowners and the Shipbuilding Corporation. Of the total funds required for shipbuilding, 70 per cent was raised by the Corporation (mainly borrowed from the Reconstruction Finance Bank) and 30 per cent by shipowners. Such a system as the Shipping Corporation for control and governmental aid was indispensable for some time after the war's end because shipowners had suffered damages and they could not raise necessary funds for postwar reconstruction.

With the drastic reduction of the 1949-50 national budget, the Shipbuilding Corporation now has to wind up its control business because the Reconstruction Finance Bank has practically suspended its lending operations. About Y7 billion will be earmarked for shipbuilding out of the United Aid Counterpart Fund, although a final decision is still pending, particularly about the rate of interest. Both shipowners and builders are calling for a low interest rate on the ground that the shipping business assumes important international implications. Finance Ministry authorities appear inclined to fix the interest rate at 10 percent for all industries without any discrimination.

As to the fifth building program, tenders will not be invited as the Shipbuilding Corporation has nothing to do with it. Orders will be made through direct negotiations between owners and

builders, thereby creating conditions for free competition. Necessary procedures on the part of Japanese authorities, shipowners and shipyards will probably be completed within August, and it will be toward the end of September that shipowners' construction plans will come in for SCAP authorisation.

Although details of the fifth program have not yet been made public, about 40 ships, with a tonnage of 240,000-250,000 (each 6,000 gross tons on the average), will be built in accordance with the following schedule: 10 ships by Mitsubishi Heavy Industries, 5 by Kawasaki Heavy Industries, 4 by Mitsui Shipbuilding, 4 by Harima Shipbuilding, 3 by Uraga Dock, 5 by Hitachi Shipbuilding, 2 by Ishikawajima Heavy Industries, 1 by Nippon Steel Tube, 1 by Kawanami Industry, 1 by Fujinagata Shipbuilding, 1 by Hakodate Dock and 1 by Nagoya Shipbuilding.

Assuming that the building cost per gross ton is Y70,000, the total fund required would be Y15-16 billion. If Y7 billion is to come from the U.S. Aid Counterpart Fund, about one half or Y7-8 billion would have to be raised through the medium of city banks.

Shipbuilding will be concentrated in leading companies, formerly affiliated with Zaibatsu interests, because large craft comprise the bulk of the fifth building schedule. This will affect medium and small scale shipyards, the main business of which has long been repair work in most cases. Even in the case of some leading companies which operate several yards, building work will hereafter be concentrated in efficient plants to the extent that high cost yards will have to be closed. Such an adjustment will be inevitable in connection with the execution of the fifth building program.

Outlook for Business

The Japanese business situation will be affected from now on by two elements: one is the overseas economic trend which will be reflected in the volume of foreign trade carried out on the Y360 to the dollar exchange rate, and the other is the direction towards which the current recession may move—whether or not the worsening of the business slump will touch off a vicious circle by necessitating further readjustments in industry. This latter problem is largely dependent upon the economic policies the Government chooses to follow in the future.

The two elements are correlated. If conditions improve overseas, it should be possible to forestall any domestic economic crisis. Conversely, if there is any worsening of conditions abroad, even the most drastic anti-depression measure would be of little avail. Another thing to which thought must be given is time. Granted conditions abroad will show improvement, unless such improvement is seen without too

much delay, it will be of little use in preventing the aggravation of the depression in Japan.

As for business conditions overseas and particularly in the United States, the recent halting of the downturn cannot be overlooked. The end of the decline is in sight and the depression will not last out this year. The worst had been passed by some industries, and although difficulties may yet be encountered in the immediate future, the outlook for 1950 is definitely not that of a depression. Something probably will be done about Anglo-American economic relations this coming autumn. Whether this will entail devaluation of sterling or a world-wide revision of gold prices is beyond conjecture. However, in any case, it is likely that a world-wide economic readjustment will be attempted before the year's end. It appears probable that not only in the United States but also in Britain the recession is about to end before the year is out and that the outlook for next spring is brighter. There is hope that by this time next year at the latest a world economic recovery will have been started.

If this turn for the better materializes, Japan's economy is bound to benefit. Her export trade has been poor since May; and although there was some increase in contracts in July, the overall amount still fell short of \$40 million. At this rate a total export volume of some \$500 million for the year would be about the most that could be expected. However, if world conditions improve, this situation should soon be rectified. Time, however, remains the crucial issue. If it actually turns out that real worldwide recovery must wait until next year to get under way, it follows that Japan's foreign trade will not improve substantially until that time. This means a delay of more than six months; and whether Japan's economy can last this period remains to be seen.

The Japanese Bicycle Industry

Japan's bicycle industry occupied a dominant place among the export lines of the country before the war. It was at its height of prosperity in 1937, when production reached 2,200,000 units a year and exports, amounting to Y29,000,000, topped the list of machine exports of the country.

For nearly three years after the termination of the war bicycle exports were at a low ebb. This was attributable to the following:

1. Countries that had imported bicycles before the war enforced restrictions on imports for the sake of their postwar industrial recoveries.
2. The bicycle industry was beset with many postwar difficulties.
3. It became difficult to do business with countries outside the dollar areas.
4. Difficult questions relating to prices and freight arose.

There are still many countries in the world, especially in Southeast Asia, where the bicycle is a necessity. Demand for bikes began to rise in these countries to meet a shortage caused by the stoppage of imports during the war. Such rising demand caused these countries to alleviate import controls and in the latter half of 1948 foreign orders for Japanese bicycles began to increase sharply. The bicycle industry of Japan hopes that its exports will increase markedly in the current year.

Britain exported some 1,500,000 bikes in 1948. This was nearly twice the highest prewar record of that country. In the light of the British export achievement it can be said that the key to the promotion of Japanese bicycle industry lies in the questions of quality and prices, especially the latter.

Japan lacks natural resources. This decisive fact gives a clear answer to the question of how to promote the bike export of the country. With the exception of raw silk, tea, bamboo and some few others, Japan has to import raw materials for its industry. Accordingly, Japanese export industry rests in selling its techniques, so to speak.

Japanese export industry relies chiefly on the following three requirements:

1. To sell its special techniques.
2. To sell its products turned out through utilization of special facilities.
3. To sell its products at low prices by turning out in large quantities through expansion and mechanization of production facilities.

Since Japan has to import raw materials, there are two other important requirements, namely, (a) raw materials that are obtainable without much difficulty, and (b) prospects for the sale of its products should be promising and its export commodities be non-durable goods.

The bicycle industry meet these requirements. Japan's bicycle industry reached world standard in techniques and facilities before the war. Excepting a few secondary items, materials required for bike production are obtainable in the country. The industry accordingly is one of the most promising export industries of the country.

Reduction in production costs will be possible only when the industry adopts methods to turn out large quantities. In the past it was in this stage. Today it is not in position to demonstrate its efficiency on account of various restrictions, principally (1) shortages of materials, (2) difficulties in obtaining materials of desired quality and (3) differences in gauge between products for export and commodities for home consumption.

At a time like the present, when no plan to turn out products in large quantities can be enforced without risk unless makers have materials enough for three months' production at least, in addition to one month's running stock, expenses required for collecting materials heavily affect costs, along

with changes that are often necessary in the production plan of a plant due to the exhaustion of some inventory items.

In order to employ the production power of a plant to its fullest extent it is necessary to obtain those materials whose quality is suitable for bicycles. However, as such required materials are not obtainable at present, special machines for turning out products in large quantities stand idle in plants, with the result that such secondary processes as rolling and quality adjustments are necessary. These contribute to the rise in costs. It can be said that the settlement of this question alone will cut down the present cost by some 30 per cent.

Another important factor in the high cost of bicycle production is the difference in gauge between products for home consumption and those for export. The differences impose a heavy burden on makers in respect to operation funds.

Many wartime heavy industry plants have been converted to bicycle factories since 1945. As a result, the bicycle industry, which was affected only slightly by war damage, has doubled its 1937 number of workers. Like the watch-making industry of Switzerland, the bicycle industry hopes to become the largest export industry of Japan.

PRINCIPAL FACTORIES

Nichibei Company

The Nichibei Company (Nichibei Shokai) is a leading exporter and manufacturer of bicycles and parts in Japan. It was established by the late Kyujiro Okazaki in 1898. The company first became the general agent in the Far East of a British bicycle company and did much towards popularizing bicycles. The company established its subsidiary, the Japan Bicycle Company, in 1906 for the purpose of manufacturing bicycles. In 1925 the company changed the name of Larger bicycle, to the Fuji brand bicycle. With the expansion of its business Nichibei replaced the Japan Bicycle Company by the Japan Machine Industry Company, which now is one of the three major manufacturers of bicycles in this country.

The bicycle parts the Japan Machine Industry Company produced before the war included such items as frames, hubs, coasterhubs, brakes, pedals and chains. The bicycles and parts the company produced won reputation abroad because of quality and low price.

Mr. Katsuji Okazaki, the present president of Nichibei Shokai, is a member of the House of Representatives. After the termination of hostilities he became parliamentary vice minister for foreign affairs. He is the chairman of the foreign affairs committee of the Lower House.

Miyata Works

The Miyata Works is the pioneer of the bicycle industry of Japan. Mr. Toshio Miyata is the third president of

the company. Before the war the "Miyata" brand bicycle was exported to almost all the markets in the Far East as well as to the Western hemisphere and topped the list of Japan's exports of bicycles. After the termination of hostilities the product of the Miyata Works occupies 65 per cent of the exportation of bicycles of this country.

Maruishi Company

The Maruishi Company (Maruishi Shokai), which ranks with the Nichibei Company as an exporter, is well known as exporter of bicycles, tires, tubes and other bike parts not only in Japan but also in southeast Asia. The Ishikawa Company the predecessor of the present Maruishi Company, was established in Osaka in 1898 and imported from England bicycles of British make such as Raleigh and B.S.A. cycles. In later years the company imported from the United States the diamond chains and it did much towards meeting the home demand for bicycles in the past. In 1906 the Ishikawa Company was replaced by the present Maruishi Company. The new company continued the import business until 1928 when it commenced to export bicycle parts that were chiefly exported to India, the Netherlands East Indies and Africa. The company opened a branch office in Batavia in 1933 when its exports reached the highest stage of prosperity. The company then expanded its exporting business to Africa and Argentina.

Okamoto Industry

The Okamoto Industry Company (Okamoto Kogyo Kabushiki Kaisha) is one of the so-called big three of the Japanese bicycle industry. The company was established by Mr. Matsuzo Okamoto as his private enterprise in 1898 and it began to manufacture bicycles in about 1903. For the past 45 years the company has manufactured bicycles. After the end of the war the company was the first in this country to produce duralumin bicycles. The manufacture of light alloy bicycle was contemplated by the company to make good the shortage of steel material after the end of the war. Okamoto's duralumin bicycles are highly recommended by the Japanese authorities for export because of lightness, beautiful appearance and solidity.

Nittei Industry

The Nittei Industry Company (Nittei Kogyo Kabushiki Kaisha) was established by Mr. Umekichi Yamada, president of the company, under the name of the Yamaume Bicycle Works in 1915. Yamaume owned plants that turned out excellent frames. The products of Yamaume exceeded other makers both in quality and quantity. Before the war Yamaume Company collaborated with the Mitsui Trading Company and exported the Meyamu brand bicycle. Its prewar production capacity was 11,000 a year. With the expansion of its business the Yamaume Bicycle Works was replaced by the Nittei Industry Company in 1939.

Reports from the Philippines

Mining & Mining Problems

The breakdown of 1940 production of Gold and other Metals Output was as follows:

Mineral	Quantity	Value
		Pesos
Gold	1,100,262 oz.	76,834,425
Silver	1,407,871 oz.	1,989,365
Copper concentrates	7,957 tons	3,338,635
Copper ore ..	29,874 "	954,905
Chrome ore ..	186,002 "	2,612,192
Iron ore ..	1,236,206 "	5,564,992
Lead concentrates	1,058 "	118,008
Manganese ore	52,166 "	1,420,389
General total ..	—	92,832,911

Fifty mining companies, including 2 copper produces and 5 placer mines produced the gold and silver, while 7 chromite companies produced the chrome, 16 gold mining companies including the Lepanto Consolidated Mining Company produced copper concentrates, 2 produced copper ore, 4 produced iron ore, and 6 produced lead concentrates. There is no silver mine in the Philippines; silver is produced as a by-product in mining gold.

Out of the 79 operating mines, 25 distributed Pesos 18,335,215 in dividends to their stockholders. In contrast to the other major industries of the Philippines, the capital of which is owned by a few rich individuals or groups of individuals, the capital stock of the mining companies which is divided into millions of low value certificates, is owned by thousands of stockholders of different economic standing. With the exception of some foreigners, the stockholders are scattered all over the Philippines.

The mining industry directly employed 42,931 workers in 1940 to whom a total of P21,984,914 was paid in wages. Among all industries, mining paid the highest wages to labourers, and housing facilities in the mining camps were better than in any other industry.

The mining industry paid P7,447,615 in taxes to the Government in 1940, spent P36,660,647 for materials and supplies exclusive of lumber, and consumed 228,746,482 K.W.H. of power. The industry consumed 84,267,609 board feet of lumber, valued at P4,866,162. It was generally believed, although there are no available figures to prove it, that the 1941 production of the mining industry had actually passed the P100,000,000 mark.

In 1948, the Mineral Production in the Philippines was as follows:

Mineral	Quantity	Value
		Pesos
Gold	—	14,617,456
Chrome ore ..	256,853 tons	5,251,801
Copper concentrates	5,704 "	1,965,500
Manganese ore	25,565 "	751,853
Iron ore ..	18,289 "	252,000
Grand Total ...	—	22,838,247

The production of the whole mining industry for 1948 was only 24.6% of the production for 1940 and possibly about 20% of the production for 1941. About 80% of the industry has not yet been rehabilitated. Comparing the production for 1948 with the production for 1940, mineral by mineral, with the exception of lead concentrates and iron, the base-metal mines are on their way to rehabilitation, whereas gold mines are lagging behind. Gold production for 1940 with the by-product, silver, amounted to P78,823,790 whereas the production for 1948 was P14,617,456 only, or about 18.54% of the former. Most of the mines which have not yet been rehabilitated are gold mines.

Problems of the goldmining industry in the Philippines are similar to the problems of the same industry all over the world. Whereas the costs of labour, machinery, supplies and materials have soared to two or three times the cost before the war, the price of gold has remained pegged at US\$35 a troy ounce, the price fixed for the metal in 1934. As a result, the operation of a gold mine precludes the making of any profit, the only incentive behind private enterprise. Gold mining operation can only be carried on under any of the following conditions:

- Where some profit is made in spite of the high cost of production due to the unusual richness of the ore.
- Where some form of subsidy or aid is extended to the industry by a government.
- Where due to lack of government restrictions a free open market in gold is permitted.

Most of the gold mines in the Philippines are of the marginal or low-grade type, and with the exception of one gold mine among those already in operation, none will be able to continue operation if the producers are required to sell their gold at 70 pesos a troy ounce. Due to the high cost of production, even the one productive mine will be compelled to leave much of its low-grade ore underground, so its reserve of high-grade ore may easily be exhausted.

The Republic of the Philippines being party to the International Monetary Fund Agreement cannot ignore the present official price ruling. However, the Government through appropriate official channels may do what has been done by the governments of gold-producing countries such as Canada, South Africa, Western Australia, the Belgian Congo, and other gold-producing countries to assist in the rehabilitation of the mining industry through a system of subsidy to the mines.

Exports in June

Exports for the month of June carried by 92 vessels amounted to 198,180 tons. This figure is considerably in excess of the amount of cargo carried during the same month last year, it is 50,413 tons less than the amount listed during the preceding month of May.

Most commodities showed a falling off from last month, principally copra, scrap metal, ores, and sugar. This can be attributed to the drop in the copra market, the ban on the export of scrap metal, less demand for certain ores, and the tapering off of the sugar season.

Exports for the month of June this year, as compared with exports for June last year, are as follows:

	1949	1948
Alcohol	40 tons	—
Beer	1,147 "	—
Coconut, desiccated	9,007 "	6,498 tons
Coconut oil	5,681 "	2,508 "
Concentrates, copper	2,361 "	107 "
Concentrates, gold	559 "	110 "
lead	135 "	—
Copra	34,748 "	49,490 "
Copra cake, meal	7,084 "	3,813 "
Embroideries	146 "	120 "
Empty cylinders	301 "	271 "
Fruits, fresh	118 "	62 "
Furniture, rattan	499 "	607 "
Hemp	47,228 bales	47,786 bales
Household goods	226 tons	148 tons
Junk metal	5,086 "	4,468 "
Kapok	303 "	25 "
Logs	1,448,462 board	859,556 board
Lumber	1,484,078 feet	1,060,912 feet
Molasses	1,350 tons	—
Ores, chrome	18,583 "	18,357 tons
iron	23,805 "	—
manganese	3,395 "	—
Pineapples, canned	11,298 "	2,452 "
Rattan	98 "	—
Rope	284 "	346 "
Rubber	60 "	48 "
Shells	52 "	105 "
Sugar	58,207 "	21,093 "
Tanning extract	94 "	—
Vegetable oil products	56 "	13 "
General cargo	1,320 "	22,462 "

Real Estate Market

The month of July showed a substantial increase in real estate purchases, with a total recorded of 204 transactions having a value of P3,019,784, as compared with 259 transactions valued at P2,793,217 for June. Several transactions closed during July have not yet been registered.

Mortgages registered in July amounted to P12,446,530, as compared with P7,559,958 for June.

Comparative figures on transfers for the first seven months of 1946 to 1949 are as follows:

	January-July
1946	P23,488,400
1947	41,729,193
1948	33,084,753
1949	23,078,167

The largest transaction recorded during the month was the purchase for P472,000 of the 8,586-square-metre parcel on Azcarraga Street by the Philippine College of Commerce and Business Administration. Although only registered now the deal was closed a couple of years ago, before the College began construction of its multi-million-peso school plant.

Philippine Financial Report

Comparative figures of assets and liabilities of the Central Bank follow:

ASSETS

International Reserve	
Contribution to International Monetary Fund	717,969
Account to Secure Coinage	30,000
Domestic Securities	113,106
Due from Treasurer of Philippines	—
Other Assets	19,320
	<hr/>
	877,395

	(in thousands of pesos)		
	As of January 31	As of May 31	As of June 30
	717,969	682,648	641,617
	<hr/>	<hr/>	<hr/>
	30,000	30,000	30,000
	<hr/>	<hr/>	<hr/>
	113,106	113,306	113,306
	<hr/>	<hr/>	<hr/>
	—	3,686	9,739
	<hr/>	<hr/>	<hr/>
	19,320	—	7,626
	<hr/>	<hr/>	<hr/>
	21,994	—	22,681
	<hr/>	<hr/>	<hr/>
	877,395	851,634	824,969

LIABILITIES

Currency: Notes	621,521
Coins	73,035
Demand Deposits — Pesos dollars	169,351
Securities Stabilization Fund	2,000
Due to International Monetary Fund	—
Other Liabilities	1,488
Capital	10,000
Undivided Profit	—
	<hr/>
	877,395

	621,521	544,970	534,425
	<hr/>	<hr/>	<hr/>
	73,035	74,372	74,293
	<hr/>	<hr/>	<hr/>
	169,351	152,153	135,438
	<hr/>	<hr/>	<hr/>
	2,000	2,000	2,000
	<hr/>	<hr/>	<hr/>
	—	22,499	22,499
	<hr/>	<hr/>	<hr/>
	1,488	2,052	2,128
	<hr/>	<hr/>	<hr/>
	10,000	10,000	10,000
	<hr/>	<hr/>	<hr/>
	—	3,035	3,537
	<hr/>	<hr/>	<hr/>
	877,395	851,634	824,969

The June 30 statement was highlighted by the drop of P41,000,000 from the previous month in the International Reserve. A decline in the amount of dollars received from the United States Treasury for account of the various United States Government agencies, which supplements the foreign exchange earned from exports, resulted in banks having to rely heavily on the Central Bank for import exchange cover.

The Government floated its first issue of Treasury bills on July 11. The offering, on a discount basis, was composed of P1,000,000 one-year certificates. One of the Manila banks was the successful bidder at P98.50. It has been reported that the proceeds of these certificates will be used to meet preliminary expenses for the development of the new Capital City.

The revised rates established by the Central Bank on June 24 for exchange transactions with the commercial banks, still hold; selling 200.81 telegraphic transfer, and buying 200.75 telegraphic transfer.

The rates between which the banks are permitted to quote to clients are unaltered at:

Indonesia's Imports & Exports

Foreign Trade, First Quarter 1949

Total foreign trade of Indonesia for the first quarter of 1949 amounted to 593,700,000 guilders (US\$225,600,000), an increased of 34 percent over the corresponding quarter of 1948 (442,900,000 guilders). The volume of trade for the two periods was 1,946,800 tons and 1,385,900 tons, respectively, indicating an advance for the first quarter of 1949 of 46 percent.

Of the merchandise trade total, imports during the first 3 months of 1949 of 484,100 tons valued at 279,500,000 guilders, were 30 percent larger by volume, but only 2 percent by value than those reported a year earlier; while exports of 1,462,700 tons valued at 314,-200,000 guiders showed increases of 52 percent by volume and 66 percent by value.

Imports

The indicated increase in the volume of imports during the first quarter of 1949, as compared with a year earlier, was shared by all major commodity

groups, with the exception of paper, textiles, and machinery and vehicles, which showed decreases in volume respectively of 59, 11, and 12 percent, or an average of 27 percent. In absolute figures the decrease was from 40,900 tons to 31,300 tons. All other categories — foodstuffs, fats, chemicals, rubber, clothing, petroleum, minerals, metals and semimanufactures, however, showed increases ranging from 23 percent for base metals to nearly 700 percent for wood products. The total increase in volume for these groups was about 37 percent, from 330,700 to 452,800 tons. Table 1 lists details for the individual groups.

The value per unit of imports during the first quarter of 1949 was below that for the corresponding quarter of 1948, with a decline averaging about 22 percent. Only textiles (3 percent), petroleum (6 percent) and machinery and vehicles (26 percent) registered average-price increases per unit, as indicated. All other groups declined in price per unit, the decline ranging from 60 percent for nonmetallic minerals to 5 percent for base metals.

Exports

The outstanding development during the first 3 months of 1949 was the fact that exports were 52 percent larger by volume and 86 percent by value than during the corresponding period in the preceding year. For mineral and mining products as a group, the increase amounted to 48 percent and 69 percent, respectively. Within this group, petroleum products showed an increase of 32 percent by volume and 79 percent by value; tin, 26 percent and 54 percent; and bauxite, 321 percent and 451 percent. Similarly, the increase for agricultural, forestry, and animal products as a group was 74 percent and 101 percent, respectively. The recorded volume of exports for major individual products during the first quarter of 1949, with the volume for the first quarter of 1948 in parentheses, was as follows: Rubber, 79,244 tons (52,408 tons); copra, 85,887 tons (35,380); tea, 4,874 tons (887); palm oil, 19,380 tons (750); kapok, 1,896 tons (629); resins, 1,996 tons (1,297); pepper, 1,837 tons (728); coffee, 813 tons (1,181); hard fibers, 872 tons (2,231); sugar, 1,429 tons (16,054); and mace-nutmeg 394 tons (888).

Average unit values of exports during the first quarter of 1949 were 23 percent higher than during the earlier period. For petroleum products the value was 37 percent higher, for tin ore 23 percent, for bauxite 32 percent; for coal 20 percent lower. For agricultural, forestry, and animal products, the increase averaged 16 percent, with decreases recorded as follows: Palm oil 31 percent, tea 25 percent, resins 21 percent, sugar 10 percent, mace 42 percent, and nutmeg 2 percent. On the other hand, the increase for tobacco amounted to 254 percent; for pepper, 38 percent; for hard fibers, 80 percent; for rubber, 23 percent; for kapok, 22 percent; and for copra, 8 percent.

TABLE 1.—Indonesia: Imports by Major Commodity Groups, First Quarter
1949 and 1948

Commodity group	Volume (in thou-		Value (in million	
	sands of metric tons)		of guilders)	
	First quarter	First quarter	First quarter	First quarter
	1949	1948	1949	1948
Total	484.1	371.6	279.5	274.2
Foodstuffs, beverages, tobacco	91.4	69.8	63.5	63.0
Fats .....	.7	.5	1.2	1.1
Chemicals	21.6	7.5	13.7	10.5
Rubber products .....	.7	.3	2.9	1.5
Wood products	1.0	.1	.8	.1
Paper products	4.3	10.4	3.6	10.0
Hides and skins .....	.1	.2	.3	.2
Textiles	12.8	14.4	92.7	100.8
Clothing and gunny bags	2.8	.6	8.3	4.5
Petroleum products	259.5	209.3	20.5	15.5
Nonmetallic minerals	49.5	21.3	6.6	7.2
Precious metals	—	—	.2	—
Base metal products	22.6	18.3	17.8	15.2
Machinery and vehicles	14.2	16.1	38.6	34.9
Miscellaneous and samples	2.9	2.8	8.8	9.7

Import and Export Price Movements

Relative prices, as reflected by a comparison of prices per ton of recorded imports and exports have since 1947, slightly moved in favour of exports, while for 1948 they were 2.91 times as high. During 1948 there were, on a quarterly basis, wide fluctuations in the relative import-export unit price—from 4.22 in the first quarter to 2.41 in the third quarter. The ratio for the first quarter of 1949 was 2.68. Since there are indications that world market prices for several Indonesian exports are further declining, it may be expected that this downward tendency of the ratio may be reversed, and that therefore the purchasing power of exports relative to the cost of imports may decline. Changes in either direction are strongly influenced by alterations in the composition of imports and exports.

As compared with 1938, the unit value of recorded imports during 1948 was about 2.45 times as large; and of

exports, 3.35 times. During the first quarter of 1949 the former declined to 2.41 while the latter slightly increased to 3.59.

Production

The productive mechanism has experienced considerable improvement. Output during the first quarter of 1949, with 1948-first-quarter data in parentheses: tin, 7,092 tons (6,460); bauxite 179,021 tons (36,544); copra 97,327 tons (57,750); palm oil 20,361 tons (4,677); rubber 82,390 tons (52,797); tea 5,767 tons (1,754 tons); palm kernel 5,363 tons (880 tons); cinchona bark 1,293 tons (1,078 tons); and crude petroleum 9,762,027 barrels (6,794,109 barrels).

Balance of Trade

Foreign trade during the first quarter of 1949 resulted in a surplus of 34,700,-000 guilders, and compares with a deficit of 105,500,000 guilders for the first quarter 1948.